THE LOEWEN GROUP INC. 1996 ANNUAL REPORT

CELEBRATING TEN YEARS OF GROWTH THE LOEWEN GROUP INC.

50th State Funeral Plan, Ltd. • Acacia Park Cemetery • Albion Memory Gardens • Alleghany Memorial Park • Allegheny County Memorial Park • Altavista Memorial Park • Anderson Memorial Gardens
County Memorial Gardens • Augusta Memorial Park • Bayview Cemetery • Beeville Memorial Park • Belcrest Memorial Park • Benton County Memorial Gardens • Beth David Memorial Gardens • Be
Cemetery • Bethlehem Memorial Park Cemetery • Beverly Cemetery • Beverly Hills Memorial Garden • Bladen Memorial Gardens • Blair Memorial Park • Bulloch Memorial Gardens • Bush River M
Gardens • Cadillac Memorial Gardens East • Cadillac Memorial Gardens West • Carolina Biblical Gardens • Castleview Memorial Park • Cathedral In The Pines Memorial Garden • Cedar Hill Cemetery •
County Memorial Park • Chapel Hill Memorial Park • Chapel Hill Memorial Park Cemetery • Chapel Lawn Memorial Gardens • Chapel Park Cemetery • Charlotte Memorial Gardens Cemetery • Cle
Memorial Garden • Clover Leaf Park Cemetery • Cochise Memory Gardens Cemetery • Conejo Mountain Memorial Park • Conroe Memorial Cemetery • Corapolis Cemetery • Crawford County M
Gardens • Cresthill Cemetery, Inc. • Crestview Memorial Gardens • Crestview Memorial Park • Crown Hill Cemetery • Crown Hill Memorial Park • Cumberland Memorial Gardens • Dandridge M
Gardens • Danville Memorial Gardens • Davis Paradise Valley Funeral Home • Del Rio Memorial Park • Deschutes Memorial Gardens • Earthman's Memory Gardens Cemetery • Earthman's Re
Cemetery • East Ashland Memorial Gardens • East Lawn Memorial Park • Eastbrook Cemetery & Mausoleum • Eastlawn Gardens Of Memory • Eastlawn Memorial Gardens • Eastview Memorial Garden
Memorial Park • El Senorial Funeral Home • Elliott-Hamil Garden Of Memory • Elm Lawn Cemetery • Elmwood Cemetery • Erie County Memorial Park • Ever Rest Cemetery • Evergreen Memorial
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Florence County Memorial Gardens • Forest Hill Cemetery • Forest Hill Memorial Park • Forest Lawn Cemetery • Forest Lawn Memorial Garden & Mausoleum • Forest Lawn Memorial Gardens • Fore
Memorial Park • Forest Lawn West Cemetery • Forest Memorial Park, Inc. • Forest Park Cemetery West, Inc. • Forest Park Cemetery, Inc • Fort Gary Chapel • Fort Steuben Burial Estate • Garden Of Me
Garden Park - Memorial Monument • Garden Sanctuary Cemetery • Gardens of Faith Cemetery • Gardens Of Memory • Gardens of Rest • Garry Memorial Park • Gaston Memorial Park • Georgia M
Parks, Inc. • Gethsemane Cemetery, Inc. • Grace Memorial Park • Graceland Cemetery • Graceland East Cemetery • Graceland Memorial Gardens • Graceland Memorial Park North • Graceland South M
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Greenbrier Burial Park • Greene County Memorial Park • Greenlawn Burial Estates • Greenwood Cemetery • Guilford Memorial Park • Gulf Pines Memorial Gardens • Guyan Memorial Gardens • Halcy
Memorial Gardens • Hamblen Memory Gardens And Mausoleum • Harnett Devotional Gardens • Henlopen Memorial Park, Inc. • Henry Memorial Park • Highland Cemetery • Highland Hills M
Gardens • Highland Memorial Gardens • Highland Memory Gardens • Hilcrest Cemetery • Hill Haven Memorial Gardens • Hillcrest Burial Park • Hillcrest Gardens • Hillcrest Gardens of Memories •
Memorial • Hillcrest Memorial Gardens Cemetery • Hillcrest Memorial Park • Hillcrest Memory Gardens • Hills Of Rest Cemetery • Hills Of Rest Memorial Park • Holly Hills Cemetery • Imperial M
Funeral Home, Cemetery And Crematory, Inc. • Irving Park Cemetery • Jackson County Memory Gardens • Jefferson Memorial Gardens • Juniata Memorial Park • Kennesaw Memorial Park • Kno
Memorial Park, Inc. • La Fayette Memory Gardens • Lakeside Memorial Gardens • Lakeside Memorial Park • Lakewood Memorial Park • Laurel Hill Cemetery • Lawn Haven Burial Estates • Lawnhaven M
Gardens • Lee Memorial Park & Cemetery • Limestone Memorial Gardens • Lincoln Cemetery • Lincoln Memorial Park • Liveoak Park Memorial Cemetery • Lodi Memorial Cemetery • Longview Memo
• Los Jardines Memorial Park • Louisville Memorial Gardens East • Louisville Memorial Gardens West • Lumbee Memorial Gardens • Macon Memorial Park • Madison County Memorial Gardens • M
Park Cemetery • Maplewood and Memorial Lawn Cemeteries • Martin Memorial Park • Marysville Cemetery Association • McHenry County Memorial Park • McMinn Memory Gardens • Meigs M
Gardens • Memorial Gardens, Burlington • Memorial Lawn • Memory Gardens Of Fairhope • Memory Gardens Of The Valley • Memory Gardens, Inc. • Monte Cristo Memorial Park • Montgomery M
Park • Monument Hill Memorial Park • Morningside Memorial Gardens • Morris Cemetery • Mound Grove Cemetery • Mount Lebanon Cemetery • Mount Nebo/Kendall Memorial Gardens •
Nebo/Miami Memorial Gardens • Mount Olive Cemetery • Mount Rose Cemetery • Mount Royal Memorial Park • Mountain View Cemetery • Mt. Auburn Cemetery Co. • Mt. Hope Memorial Garde
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Oakwood Memorial Mausoleum • Olympic Memorial Gardens • Pace-Stancil Memorial Rest Gardens • Palm Memorial Gardens • Palm Springs Mausoleum • Panorama Memorial Gardens • Pape
Fils/Sons Inc. • Park View Memorial Gardens • Parksville Cemetery • Parkway Memorial Cemetery • Phoenix Memorial Park • Pine Ridge Memorial Park • Pineview Cemetery • Pineview Memori
Pinewood Memorial Park • Pleasant View Cemetery • Portland Memorial • Powell Valley Memorial Gardens • Prospect Cemetery • Raleigh Memorial Park • Rest Haven Cemetery Association • Re
Gardens Of Memory, Inc. • Resthaven Memorial Park • Resthaven Memory Gardens • Restlawn Gardens Of Memory • Restlawn Memorial Gardens • Restlawn Memorial Park • Restlawn Memory G
Restwood Memorial Gardens • Riverside Cemetery Co. • Riverview Cemetery • Robertson County Memorial Gardens • Rockbridge Memorial Gardens • Rockfish Memorial Gardens • Rolling Hills
Gardens • Rose Hill Memorial Park • Rose Hills Memorial Park • Rose Lawn Cemetery • Rosehill And Elmwood Cemetery • Roseland Park Cemetery & Crematory • Roselawn • Memorial Park • Rosela
Park • Roselawn Gardens of Memory • Roselawn Memorial Gardens • Rosewood Memorial Gardens • Royal Palm Cemetery • Royal Palm Cemetery North • Royal Palm Family Services • Russell M
Cemetery • Sandia Memory Garden • Sarasota Memorial Park • Seneca Memory Gardens • Shadow Lawn Memory Gardens • Shenandoah Memorial Park • Sherwood Memorial Gardens • Skyway M
Gardens • South Side Cemetery • Southern Memorial Gardens • Southern Memorial Park • Southland Memorial Gardens • Spring Hill Cemetery Company • Spring Valley Memorial Gardens • Sp
Memory Gardens, Inc. • Stanly Gardens • Star Of David Memorial Gardens Cemetery • St. Joseph Memorial Valley Park • Sumner Memorial Gardens • Sunset Hill Memorial Gardens • Sunset Memorial
Memorial Cemetery And Funeral Home • Sunset Memorial Gardens • Sunset Memorial Park • Sunset Memorial Park and Funeral Chapel • Sunset Memory Gardens, Inc. • Tri-State Cemetery • Trinity C
• Twin Hills Memorial Park • United Memorial Gardens, Inc. • Valhalla Memory Gardens • Valley Memorial Park • Valley Of The Temples Memorial Park • Valley View Memorial Park • Voegtly Cemeter
Memorial Park • Washington Memorial Park • Washington National Cemetery • Washtenong Memorial Park • Waverly Memorial Gardens • West Lawn Memorial Park • West Virginia Memorial G
Western Reserve Memorial Gardens • Westlawn Cemetery • Westlawn Gardens Of Memory • Westminster Gardens • Westview Gardens • Whispering Pines Memorial Gardens • White Chapel Memoria
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Memorial Crematorium • Humboldt Crematory • MacKenzie Funeral Home & Crematorium • Mission Hill Crematorium • Northeast Ohio Crematory • Oakley Funeral Home Central • Pi
Crematorium • Portland Funeral Alternatives • Raleigh Cremation Services • Robarts Bros. Universal Crematorium • Roswell Funeral Homes • Southern Colorado Cremation Society, Inc. • Surrey M
Services And Crematorium • Vancouver Memorial Services And Crematorium • Aaron Funeral Home • Abreau Gonzalez Funeral Homes • Acadia Drive Funeral Chapel • Acklam Funeral Home • Adam
Home • Addison Funeral Home • Alexander Funeral Chapel • Alexander Funeral Home • Alexander Funeral Home, Inc. • Alief-Sharpstown Funeral Home • Allen-Braun Funeral Home • Allen-Kor
Funeral Home • Allen-Wheelock Funeral Home • Allen-Woodin Funeral Home • Alleva Funeral Home • Alpharetta - Louie E. Jones Funeral Home • American Burial & Cremation Services • Angelus
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Nicoletti Funeral Home • A.L. Mattatall Funeral Home • Bailey Funeral Home • Baldwin-Lee Funeral Home • Ball-Dunn Chapel • Ballard And Lindgren Funeral Home • Bangs Funeral Home • Barnett
Funeral Home • Barton & Kiteley Funeral Home • Bass Funeral Home • Bateman Carroll Funeral Chapel & Columbia Crematory • Bath Funeral Home • Bayview Funeral Home - Daphne-Spanish Fort
Bayview Funeral Home - Fairhope Chapel • Bayview Funeral Home - Foley Chapel • Beam Funeral Home • Beardsley-Mitchell Funeral Home • Becker Funeral Home • Beilby Funeral Home • Bennett
Funeral Home • Berhalter-Hutchins Funeral Home • Berry's Funeral Home • Bevis-Colonial Funeral Home • Biggs Funeral Home • Bishop Funeral Chapel • Blasberg/Rubin/Zilbert Memorial Chap
River Chapel • Bob Miller Funeral Home, Inc. • Boca Raton Funeral Home • Bocketti Funeral Home • Boelter Funeral Home • Boise Almont Memorial Chapel • Booth Funeral Home • Bowen - NeSmit
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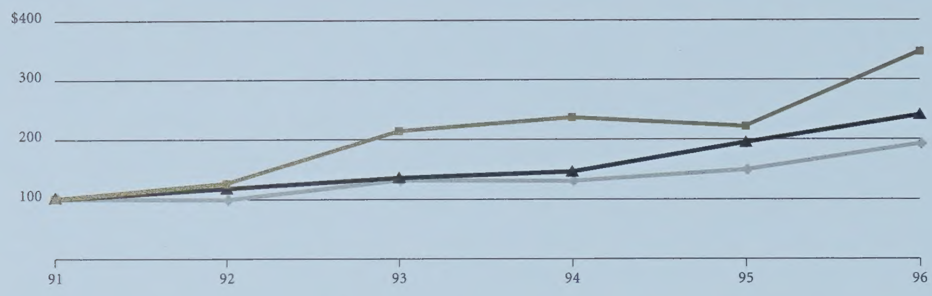
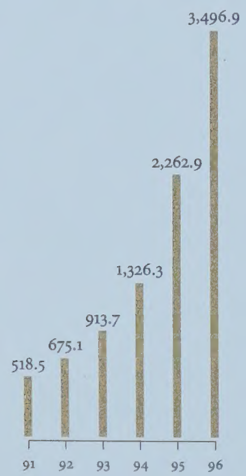
Buckner's Dickson Funeral Home • Bucktrout of Williamsburg • Buell Chapel • Buffalo Grove Funeral Home • Bultman Funeral Home • Bunch-Johnson Funeral Homes • Burcham Funeral Hom
Funeral Home • Burton L. Hirsch Funeral Home, Inc. • Byron's Funeral Home • Camposanto De Cristo Resucutado • Capps Funeral Home • Cardwell Funeral Home • Carlson Funeral Home • Carma
Home • Carothers Funeral Homes • Carpenter's Funeral Home • Carr-Tenney Mortuary • Carr & Erwin Funeral Home • Carter Funeral Home • Cashner Funeral Home • Caughman-Harman Funera
Chapin Chapel • Caughman-Harman Funeral Home - Lexington Chapel • Caughman-Harman Funeral Home, Irmo - St. Andrews Chapel • Cavazos Memorial Chapel • Cedar Hill Chapel • Chaney'
Home • Chapel Hill Funeral Home • Chapel Hill Gardens • Chapel of Chimes Funeral Home • Chapel of Memories Funeral Directors • Chapel Of Seaside • Chapel of the Valley • Chapel of the Valley M
Charlotte Memorial Funeral Home • Charlottetown Funeral Home • Chism-Smith Funeral Home • Chrastka Funeral Home, Ltd. • City Burial & Cremation Service • Clement's Rosetown Funera
Cobbtown Chapel • Cockrell Funeral Home • Cocoa Funeral Home • Cofer-Kolski-Combs Funeral Home • Coffey Mortuary, Inc. • Colboch-Price Funeral Home • Coleman Funeral Home, Inc. • Co
Ferguson Chapel • Coleman & Ferguson Funeral Home • Collins Funeral Services • Coloni Funeral Homes • Colonial Chapel • Comisky-Roche Funeral Home • Comstock Funeral Home • Conejo M
Funeral Home • Conrad Lemon Grove Mortuary, Inc. • Coon Rapids Chapel • Cooper Funeral Home • Coquitlam-Geddes Funeral Chapel • Coral Ridge Funeral Home And Cemetery • Coral Spring
Home • Corbett, Quirk And Pontarelli • Corrigan Funeral Home • Courtney's Funeral Services • Courtney-Winter's Funeral Chapel (1981) Ltd. • Coutts & Son Funeral Directors • Covell-Smith Funer
Covell Funeral Home • Coventry Funeral Service • Coward Funeral Home • Craciun Funeral Home • Cresthaven Funeral Home And Cemetery • Crestwood Park Mortuary • Cruikshank's Halifax Func
• Crystal New Hope Chapel • Cuffe-McGinn Funeral Home • Curry Raley Funeral Home • Curtis & Son Funeral Home Inc. • Cutcliffe Funeral Home • Cy-Fair Northwest Funeral Home • C.E. Preva
Homes • C.P. Bannon Mortuary • Dahl's Ditlevsen-Moore Funeral Home • Dahl/McVicker Funeral Home • Dakota Memorial Chapel, Inc. • Dale Maloney Funeral Home • Dallas Funeral Home •
Mouser Funeral Home • Darling & Burns Chapel • Darrell Howe Mortuary of Lafayette • Daves-Culbertson Funeral Home • Davis-Morris Funeral Home • Davis Funeral Home • Davis Funera
Clarksburg Chapel • Davis Funeral Home Bartlett Chapel • Davis Funeral Home Memorial Plan • Day Mortuary • De Witt Chapel • Dean-Lopez Funeral Home • Deerfield Beach Funeral Home • Del Ri
Home, Inc. • Delano Mortuary • Delaware Park Memorial Chapel • Delmoro Funeral Home (North York) Ltd. • Delmoro Funeral Home (Woodbridge) Ltd. • Denbo Funeral Home, Inc. • Deren
Mortuary • Deschutes Memorial Mortuary • Desert Hot Springs Mortuary • Di Cicco & Sons Funeral Home • Diamond Head Mortuary • Digby Funeral Home • Dillman-Green Funeral Home • Diugu
Service • Dixon-Bowen-Taylor Funeral Home • Doane Beal & Ames • Donelson, Sewell & Mathews With Fuiten Mortuary • Dorsey Funeral Home • Dowling Funeral Home • Downtown Chapel • Dr
Funeral Home • Driscoll-Comisky-Roche Mortuary • Dudley M. Hughes Funeral Home • Dudley M. Hughes Funeral Home North Chapel • Duell-Clark Funeral Chapel • Duffy Funeral Home • Dun
/ Prater & Dunn Funeral Home • Durham Funeral Home • Dwayne Walker Funeral Home • Earthman's Baytown Chapel • Earthman's Bellaire Chapel • Earthman's Downtown Chapel • Earthman's G
• Earthman's Hunters Creek Chapel • Earthman's North Chapel • Earthman's Resthaven Funeral Home • Earthman's Southwest Funeral Home • East Chapel • Eastgate Funeral Service • Ed C. Smith &
Funeral Directors • Edo Miller-Dekle-Wainwright Funeral Home • Edo Miller Funeral Home • Edward F. Carter Funeral Home • Edward Swanson & Son Funeral Home • Edwardson-Axtell Funeral
Senorial Memorial Park • Elliott-Hamil Funeral Home • Ellis-Mayes Funeral Home • Eloise B. Kyper Funeral Home • Elzey & Haggard Funeral Home • Enga-White Funeral Chapels • Englo Funer
Ernest A. Richardson Funeral Home • Eternal Light Funeral Home • Ettinger-Kennedy Memorial Residence • Ettinger Funeral Home • Evans Funeral Home • Evergreen Funeral Home & Cemetery •
Memorial Chapel • F. Andrychuk Funeral Home, Ltd. • F.K. May Funeral Home • Fairchild Funeral Home • Fairchild North Federal Chapel • Fairview Chapel • Fedderly-Axtell Funeral Home, Inc. •
Cann Funeral Home • Finefrock's Services • Fir Lawn Funeral Chapel • Fisher-Riles Funeral Home • Fissell Chapel - Brown Mortuary Service • Fitzgerald & Son Funeral Directors • Flagstaff-Greenlaw
Inc. • Fletcher Funeral Chapel • Foster Family Funeral Home • Frank W. Wilson Funeral Directors • Franklin Memorial Chapel • Fraser Funeral Home • Frazier & Son • Funeral Concepts of Knoxville •

SINCE ITS INITIAL PUBLIC OFFERING IN MAY, 1987, THE LOEWEN GROUP INC. HAS BECOME THE SECOND LARGEST AND FASTEST GROWING PUBLICLY-HELD FUNERAL SERVICE AND CEMETERY CORPORATION IN NORTH AMERICA, IN TERMS OF REVENUES AND ASSETS. THE COMPANY CURRENTLY EMPLOYS OVER 16,000 PEOPLE AND OWNS OR OPERATES 984 FUNERAL HOMES AND 356 CEMETERIES ACROSS THE UNITED STATES AND CANADA.

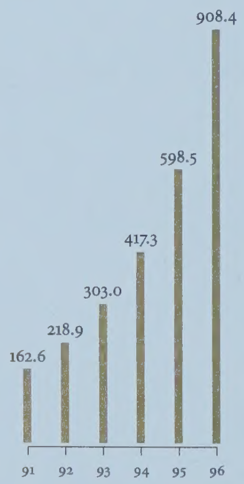


Loewen Group Cumulative Total Return

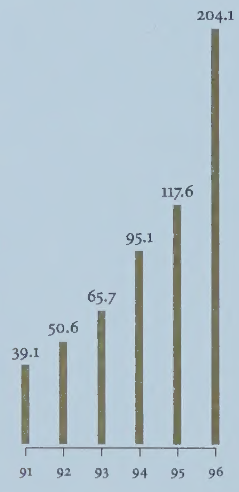
Value of $100 invested at December 31
■ The Loewen Group Inc. ◆ TSE 300 Total Return Index ▲ S&P 500 Total Return Index



Total Assets



Revenue



Earnings from Operations

(all amounts in millions of U.S. dollars)

Highlights

Years ended December 31, 1996 and 1995
Monetary amounts expressed in thousands of U.S. dollars, except per share statistics

	1996	1995	% Increase
Revenue	$ 908,385	$ 598,493	51.8
Net Earnings (Loss)	$ 63,906	$ (76,684)	n/a
Earnings (Loss) per Common Share (fully diluted)	$ 0.97	$ (1.69)	n/a
Fully Diluted Weighted Average Number of Shares (in thousands)	57,385	45,291	26.7
Total Assets	$3,496,939	$2,262,980	54.5
Long-term Debt (Including Current Portion)	$1,508,221	$ 934,509	61.4
Shareholders' Equity	$1,048,200	$ 614,682	70.5
Common Share Price at Year-end			
Toronto Stock Exchange ($Cdn.)	$ 53.50	$ 34.38	55.6
New York Stock Exchange / Nasdaq National Market	$ 39.13	$ 25.31	54.6
Dividend per Common Share	$ 0.20	$ 0.05	300.0
Funeral Homes	956	815	17.3
Funeral Services	142,000	114,000	24.6
Cemeteries	313	179	74.9
Interments	45,000	27,000	66.7
Employees	16,000	10,000	60.0

Celebration.

Ten years ago we made a decision to expand The Loewen Group into the United States and to fund that expansion by offering our shares to the public. Our vision was to create a premier North American funeral service company that would serve the succession planning needs of funeral home owners and provide the best possible care to the public. Today, we are living in the future we envisioned all those years ago.

We've celebrated enormous successes over the years and flourished despite significant challenges. We emerged successfully from the equity market collapse in 1987, as well as the bank credit constraints of the early 1990s, and became one of the smallest companies in 1991 to receive an investment grade rating. Our company survived an unjust Mississippi jury award and posted record-breaking revenues and acquisitions in 1995 and 1996.

Today, the Company remains strong. In January, 1997, Service Corporation International (SCI) withdrew its attempt to take over The Loewen Group. In October, 1996, our Board of Directors unanimously rejected the exchange offer proposed by SCI, deeming it inadequate and not in the best interests of our shareholders.

We believed then, as now, that the best way to maximize shareholder value is through the continued implementation of

our long-term business plan as an independent company.

In May, 1987, we listed our initial public offering on The Toronto Stock Exchange at Cdn $5.50 per share (Cdn $2.75 after giving effect to the 1991 stock split). Today, we also trade on the New York Stock Exchange and The Montreal Exchange. Over the past 10 years, The Loewen Group's Common share price on The Toronto Stock Exchange has increased more than 16 times in comparison to the initial offering price.

With strong management, and the right philosophy, our company has been able to overcome adversity. While we were preparing to price our second public offering in October, 1987, the stock market crashed and sent the Dow Jones Industrial Index plummeting. We had two choices: either not proceed with the new offering, or lower the offering price. At the time, a number of prominent funeral service families were relying on us to complete their succession planning needs. We went ahead with the offering and, since then, The Loewen Group has been characterized as a company that always fulfills its obligations to funeral service and cemetery families placing the future of their businesses with us.

Through the years, we've had numerous occasions to celebrate milestones in our company's growth, including posting record breaking figures for revenues, earnings and acquisitions. We've implemented consumer services, such as our *Special Needs* and *Quality Service Guarantee* programs, that have set precedents in funeral service. We became a founding sponsor of Canuck Place, North America's first free-standing hospice for terminally-ill children, and created the Loewen Children's Foundation to further this special cause. We initiated a program, called *Sharing the Vision*, through which we gift all eligible employees with five shares each of Loewen Common shares. The Loewen Group is one of the very few publicly traded companies in North America in which every employee becomes a shareholder.

Over the years, The Loewen Group grew to include some of the finest funeral homes and cemeteries in North America. By the end of 1987, we operated 68 funeral homes and one cemetery. Today, we operate 984 funeral homes and 356 cemeteries across the United States and Canada.

To date, approximately eleven percent of the 23,000 funeral homes and nine percent of the 11,000 cemeteries in North America have been consolidated by public companies, leaving enormous opportunities for continued growth through consolidation. Our growth strategy is based on providing succession planning for small, family-owned funeral homes and cemeteries, as well as larger, multi-location operations, and on improving the revenue and profitability of newly acquired and established locations, while providing quality service to the public.

We have positioned our company as the preferred succession planning vehicle by conducting our business in a friendly manner which allows former owners the opportunity to remain involved in the business. Time and again, these principals have told us The Loewen Group lives up to their expectations.

In 1996, our company was involved in acquisitions or structured transactions totaling approximately $1.2 billion. During the year, we completed approximately $620 million in acquisitions and entered into transactions with Blackstone Capital Partners to acquire Prime Succession, Inc., North America's largest private consolidator of funeral homes and cemeteries, and Rose Hills Memorial Park, the continent's single largest cemetery/funeral home combination location. In both cases, the Company has succeeded in locking up a strategic asset while holding an option to acquire the entire equity interest in these properties in four years' time.

Looking ahead, we believe that this level of acquisition activity, excluding the structured investments, is sustainable. We plan to complete approximately $600 million to $750 million in acquisitions in 1997. To date in 1997, the Company has signed or closed

$330 million in funeral home and cemetery acquisitions. Of this, some $107 million in acquisitions have been completed, involving 28 funeral homes and 43 cemeteries.

As we move forward, the opportunities for continued growth and profitability remain outstanding. We posted record revenues and earnings for 1996, with revenues increasing 52 percent to $908.4 million from $598.5 million in 1995 and earnings from operations rising 74 percent to $204.1 million in comparison to $117.6 million the previous year.

During 1996, funeral home revenue increased 25 percent to $549.8 million in comparison to $441.4 million in 1995. Our funeral homes offer a full range of services which can be purchased at-need or through an advance planning agreement. Our company is committed to providing quality advance funeral planning, which allows consumers to select merchandise and services which will be performed in the future. We have addressed the increased consumer demand for advance funeral planning. Gross sales of prearranged funeral contracts in 1996 were approximately $190 million, 96 percent more than in 1995. We also expect a significant increase in 1997.

Our cemeteries also assist families in making at-need and advance planning arrangements, offering a complete line of cemetery products and services. During 1996, we significantly expanded our emphasis on cemetery advance planning and will continue to focus on this area in 1997. As a result of our increased cemetery acquisitions and focus on advance planning sales, cemetery revenue grew to $286.7 million in 1996, an increase of nearly 100 percent in comparison to 1995. We anticipate that, in the future, cemetery operations will account for approximately 33 to 40 percent of total revenue.

As our company continues to grow, one of our biggest challenges is to maintain organizational efficiency and cost containment. In 1996, we divided our United States operations, which represent over 90 percent of total revenues, into five distinct operating

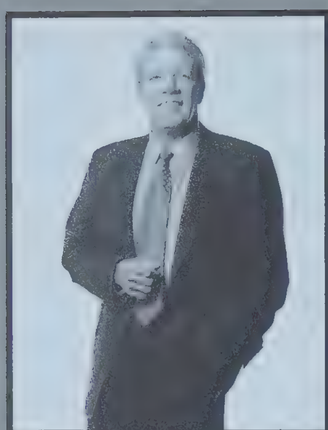
regions in which the funeral homes, cemeteries and advance planning activities are the responsibility of a regional president. Canadian operations are overseen by two regional vice-presidents. A goal of this new structure is to enable the Company to realize operating synergies between the Company's funeral homes, cemeteries and advance planning areas. In 1997, our senior management team will continue to focus on maximizing operating efficiencies.

We continued to strengthen our management team in 1996, bringing in Douglas McKinnon as Executive Vice President, Grant Ballantyne as Senior Vice President, Financial Control and Administration, and Gary Cowan as Senior Vice President, Corporate Development. Their combined knowledge and experience will be of invaluable assistance as we continue our dynamic growth. In 1996, we also promoted Lawrence Miller, formerly President of the Cemetery/Combination Division, to the position of Executive Vice President of Operations. In this new role, he is responsible for overseeing both funeral and cemetery operations.

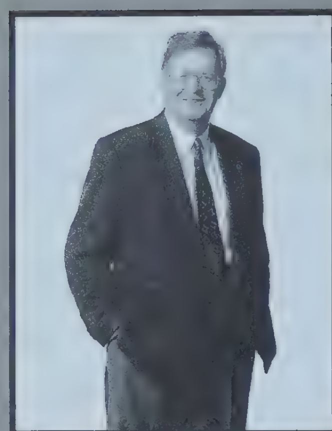
As we celebrate our tenth anniversary as a public company in 1997, I'd like to thank our shareholders, our more than 16,000 employees, and our board of directors for their continued support and contribution to The Loewen Group. I'd also like to thank the many cemetery and funeral service families who've entrusted the future of their businesses with us.

On behalf of Management and the Board of Directors,

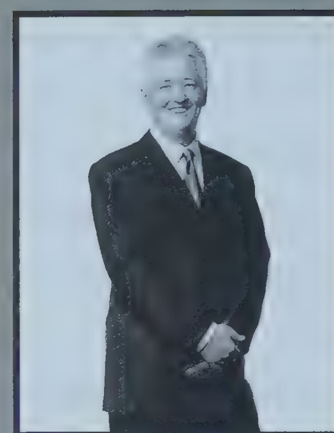
RAY LOEWEN
Chairman and Chief Executive Officer
March 14, 1997



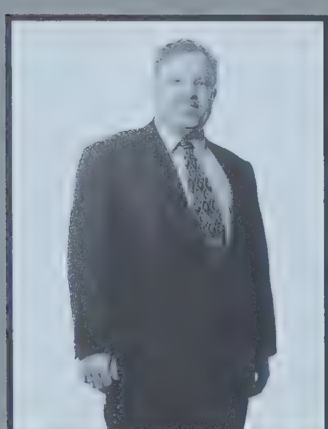
TIMOTHY R. HOGENKAMP
President and
Chief Operating Officer



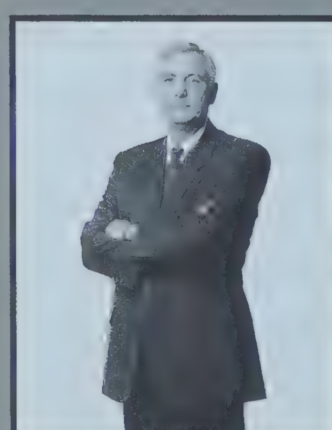
DOUGLAS J. MCKINNON
Executive Vice-President



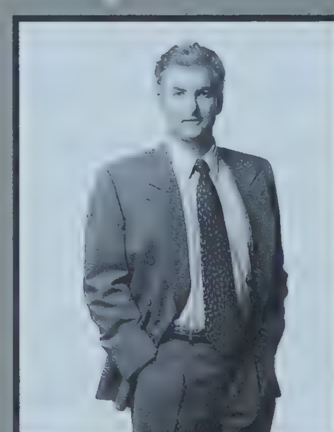
LAWRENCE MILLER
Executive Vice-President,
Operations



PAUL WAGLER
Senior Vice-President, Finance
and Chief Financial Officer



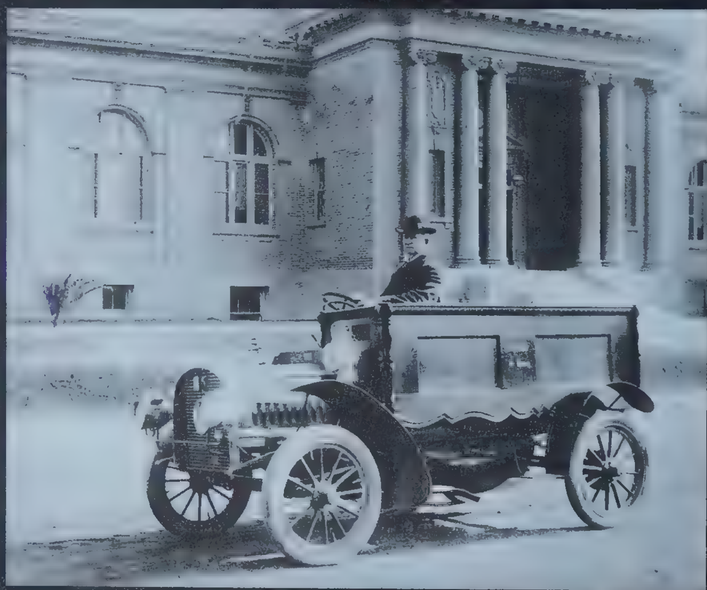
W. GRANT BALLANTYNE
Senior Vice-President,
Financial Control
and Administration



GARY D. COWAN
Senior Vice-President,
Corporate Development

SINCE ITS BEGINNING, THE LOEWEN GROUP'S GOAL HAS BEEN TO PROVIDE A CORPORATE VEHICLE WHICH WOULD FACILITATE AN ORDERLY TRANSITION OF OWNERSHIP AND MANAGEMENT OF FUNERAL HOMES AND CEMETERIES FROM ONE GENERATION TO ANOTHER, IN THE INTEREST OF THE PRINCIPALS AND THE COMMUNITIES THEY SERVED. THE COMPANY'S ACCEPTANCE AS A PREMIER CONSOLIDATOR IN NORTH AMERICAN FUNERAL AND CEMETERY SERVICE HAS LED TO OUTSTANDING GROWTH OVER THE PAST DECADE.

1987 *The Loewen Group listed its initial public offering on The Toronto Stock Exchange; entered the United States with the purchase of Culjis, Miller, Skelton and Herberger, Inc. and the Whitehurst California group of funeral homes; and purchased 22 funeral homes and one cemetery.* L.O. Stephens, founder of Stephens & Bean Chapel, Fresno, California, initiated the creation of the world's first motorized mortuary hearse in 1905. The vehicle was used in Fresno until 1906 when it was sent to San Francisco to assist in the aftermath of the great earthquake and fire. As a member of the Whitehurst California group of funeral homes, Stephens & Bean joined The Loewen Group in 1987.



1988 *[illegible] in the United States.* Founded in 1883, Schreiter-Sandrock Funeral Home, Kitchener, Ontario was originally a farm house built in the mid-1800s. A 'Widow's Walk', a closed-in area at the top of the house with windows facing in all directions, allowed the lady of the house a complete view of the grounds. Schreiter-Sandrock became a member of The Loewen Group in 1988.

1989 *The Company formed a Board of Directors for Loewen Group International, Inc., a wholly-owned United States-based subsidiary; [illegible] regional partnership growth program; and purchased 37 funeral homes and two cemeteries.* Guardian Midtown Funeral Home, Oklahoma City, was home to the Drennan family for some 20 years before Guardian took ownership of the property in 1937. One member of the Drennan family had been born, married and, in 1989, had her funeral service held there. The Guardian Funeral Home opened in 1932 and soon grew to become one of the most respected establishments of its kind in the city. The home was eventually purchased by H. Pat Mayes and became a member of The Loewen Group in 1989.

1990 *The Loewen Group was added to the Toronto Stock Exchange 300 Index; began listing its Common shares on the Nasdaq National Market; acquired Paragon Family Services, a funeral service consolidation company in the United States; implemented a Quality Service Guarantee at all locations; held its first international management conference in Palm Springs, California; and purchased 134 funeral homes and 14 cemeteries.*

Finefrock Funeral Service, Mansfield, Ohio, dates back to 1849. The building was constructed in 1895 and was purchased by the Finefrock family in the 1950s. The home's solid walnut and gold leaf trimmed library is attached with pegs and completely transportable. Finefrock Funeral Service was a member of Paragon Family Services when the company joined The Loewen Group in 1990.

1991 *The Loewen Group opened its new home office in Burnaby, B.C. and a regional office in Covington, Kentucky; completed a two-for-one stock split of Common shares; paid its first cash dividends; introduced an assistance program for students entering funeral service and purchased 198 funeral homes and two cemeteries.*

Like many funeral homes of the day, Ross Funeral Service, established by Thomas Ross in Assiniboia, Saskatchewan in 1912, was operated as a combined 'Undertakers and Furniture Store'. Ross is seated on the right in this 1915 photograph of the company's first horse-drawn hearse which was used both for funeral services and to drive the local doctor. Ross Funeral Service joined The Loewen Group family in 1991.

1992 *The Loewen Group became a founding sponsor of Canuck Place, North America's first free-standing hospice for terminally-ill children; began implementing a new Management Information System; and purchased 86 funeral homes and 15 cemeteries.* The oldest funeral home in Martinsville, Virginia, McKee Funeral Home opened in 1935 as part of a furniture store. The following year the business moved to this 1920s house, originally a family home, then a nurses' residence. Bill Collins purchased McKee Funeral Home in 1986 and, in 1992, became the first independent owner to entrust his business to The Loewen Group in exchange for Loewen Common shares.

1993 *The Company listed its Common shares on The Montreal Exchange; was assigned a triple 'B' implied senior debt rating by Standard & Poor's; named Tim Hogenkamp president and chief operating officer; initiated an employee share ownership program called 'Sharing the Vision'; and purchased 83 funeral homes and 33 cemeteries.* Five stone elephants marking the boundaries of Showmen's Rest at Woodlawn Cemetery, Forest Park, Illinois are reminders of the 1918 train wreck which killed 86 performers and roustabouts hired by the Hagenbeck-Wallace Circus. Many of the victims were interred at Showmen's Rest in graves which had been purchased only months before by the Showmen's League of America, an organization of circus, fair and carnival workers. The site was chosen because "the clear blue sky would always serve for a Big Top." Woodlawn Cemetery joined The Loewen Group in 1993.

1994 *The Company achieved, at year-end, its 26th consecutive quarterly year-over-year earnings increase; acquired a 26 percent interest in Arbor Memorial Services Inc.; introduced a management equity investment plan which provided the company with a cost effective financing program; and purchased 110 funeral homes and 46 cemeteries;* Austin & Bell Funeral Homes is the longest-serving funeral home in Tennessee and the oldest business in Robertson County. Marion Henry (opposite) founded the business in 1842, 18 years before Abraham Lincoln was elected president. A cabinet-maker by trade, Henry had served a woodworking apprenticeship before opening his own business, first in Turnersville, a trade center on the stage coach line, and later in Springfield where the business continues to operate today. In 1994, after 152 years of service, Austin & Bell became a member of The Loewen Group.

1995 *The Loewen Group acquired 177 funeral homes and 64 cemeteries, including Osiris Holding Corporation's 22 cemeteries, four funeral home/cemetery combinations and one funeral home and MHI Group, Inc.'s 16 funeral homes and five cemeteries. MHI Group was the first publicly traded company acquired by The Loewen Group. The Company also opened an executive office in Philadelphia.* Mount Lebanon Cemetery, Iselin, New Jersey was established in 1929 on land that was once used as a dairy farm. The cemetery's administration building is located in what used to serve as the dairy's office. Through the years, the surrounding land has been re-shaped into three memorial sections: the Garden of David, the Menorah Gardens, and the Bible Gardens. A non-sectarian cemetery, Forest Lawn Memorial Park, is located at the back section of the grounds. Mount Lebanon Cemetery joined The Loewen Group in 1995.

1996 *The Company listed its Common shares on the New York Stock Exchange; completed structured transactions with Blackstone Capital Partners to acquire Prime Succession, Inc. and Rose Hills Memorial Park; and was involved in acquisitions or structured transactions totaling approximately $1.2 billion.* Klein Funeral Home, St. Peter, Minnesota, was established as a furniture factory by William and John Klein in 1854. They opened a store and a small factory and later added their own saw mill. One horse, hitched to a pole and walking in a circle, generated enough 'power' to drive the factory's saws and lathes. The business grew to include the making of caskets and eventually led to the 'undertaking' business. The company's first commercial auto was an eight foot tall 1915 Moon chassis which was used as a hearse, ambulance and pall bearers' car. Klein Funeral Home joined Prime Succession, Inc. and in 1996, The Loewen Group completed a structured transaction with The Blackstone Group to acquire Prime Succession.

Rose Hills Memorial Park, the largest cemetery in North America, was founded in 1915 by Augustus Gregg, a child of early pioneers who came to Whittier, California in the late 1800s. Under his son John's direction, the cemetery grew from about 31 acres to almost 2,600 acres. He added an award-winning rose garden, several mausoleums and chapels, and a funeral home completed in 1956. John was also the main force behind the re-shaping of about 700 acres of hills and canyons into sloping land for cemetery use. Rose Hills Memorial Park and Mortuary was acquired in 1996 through a structured transaction between The Loewen Group and The Blackstone Group.

Valley of the Temples Memorial Park, on the island of Oahu, Hawaii, is home to the Byodo-In temple (top), a replica of a 900-year-old Buddhist temple in Japan. Its 18-foot high gold-lacquered Buddha, koi pond and bell house draw thousands of visitors each month. The cemetery's affiliated Windward Chapel (above) offers a stunning mountain and ocean view. Valley of the Temples joined The Loewen Group in 1996.

Bultman Funeral Home originates from a business founded by A.F. Bultman in New Orleans, Louisiana in 1883. In the early years of this century, Bultman combined his business with three other prominent New Orleans funeral service firms to create the largest company of its kind in the South. The House of Bultman, as it was then known, provided bedrooms for the bereaved to stay overnight or rest during the day. A large gilt mirror was hung at the bottom of the stairs leading from these rooms so the ladies could check their hemlines to ensure no ankle showed. Bultman Funeral Home became a member of the Security Industrial group of funeral homes in 1992. Security Industrial joined The Loewen Group in 1996.

During 1996, The Loewen Group Inc:

Completed a $161 million public offering, including an 800,000 share over-allotment, of Convertible First Preferred Shares Series C Receipts in January;

Closed simultaneous debt and equity offerings, in March, for gross proceeds of approximately $550 million;

Completed a $750 million revolving credit facility with a syndicate of banks in May;

Completed structured transactions with Blackstone Capital Partners, in August, to acquire Prime Succession, Inc., the largest privately held funeral home operator in the United States. In November, The Loewen Group and Blackstone Capital Partners completed a second structured transaction to purchase Rose Hills Memorial Park, the largest combination cemetery/funeral home in the United States;

Listed its Common shares on the New York Stock Exchange under the symbol LWN in October;

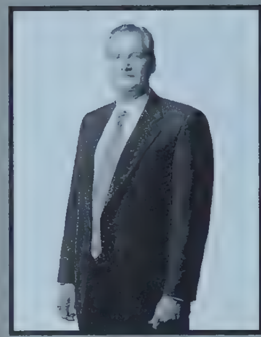
Welcomed Douglas McKinnon, Executive Vice President; Grant Ballantyne, Senior Vice President, Financial Control and Administration; and Gary Cowan, Senior Vice President, Corporate Development to the senior management team;

Divided United States operations into five distinct operating regions in which all funeral homes, cemeteries and advance planning activities are the responsibility of a regional president. Canadian operations are overseen by two regional vice presidents;

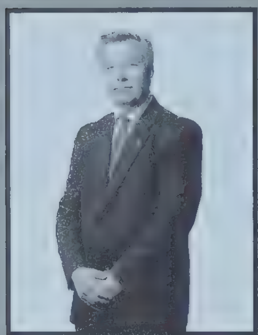
Was involved in acquisitions or structured transactions totaling approximately $1.2 billion, including $620 million in acquisitions and the structured transactions for Prime Succession, Inc. and Rose Hills Memorial Park.

George M. Amato
Regional President, Operations, North East Region

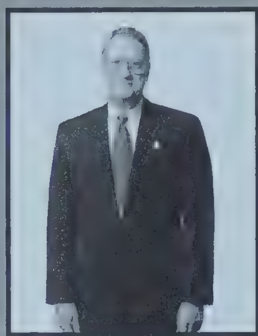
Jeffrey L. Cashner
Regional President, Operations, South East Region



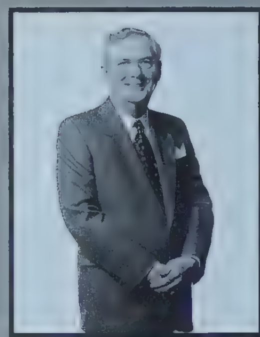
F. Duane Schaefer
Regional President, Operations, South Central Region



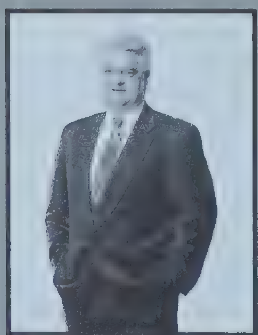
Michael Stache
Regional President, Operations North Central Region



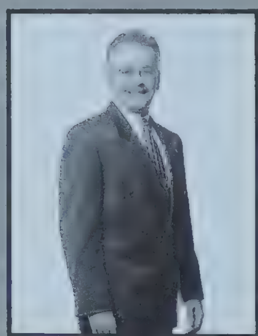
Dillis E. R. Ward
Regional President, Operations, West Region



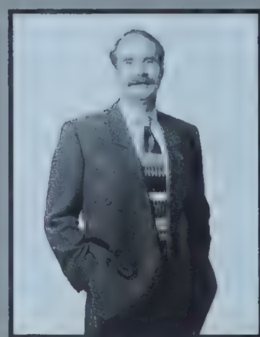
Harry C. B. Rath
Vice-President, Operations, Eastern Canada Region



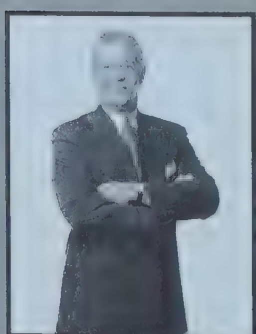
Peter A. Wiesner
Vice-President, Operations, Western Canada Region



Thomas E. Stilgenbauer
Vice-President, Operations, Funeral Homes

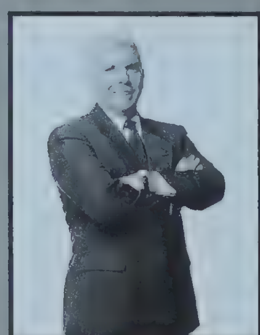


Ronald P. Robertson
Vice-President, Sales



Gregg A. Strom
Vice-President, Cemeteries

Kenneth E. Lee, Jr.
Vice-President, Combination Operations and Alternative Funerals



Alan Fisher
Vice-President, Maintenance & Construction

Financial Review

Overview

The Company operates the second-largest number of funeral homes and cemeteries in North America and the largest number of funeral homes in Canada. In addition to providing services at the time of need, the Company also makes funeral, cemetery and cremation arrangements on a pre-need basis. As at March 14, 1997, the Company operated 984 funeral homes throughout North America. This included 862 funeral homes in the United States (including locations in Puerto Rico) and 122 funeral homes in Canada. In addition, as at such date, the Company operated 350 cemeteries in the United States (including locations in Puerto Rico) and six cemeteries in Canada. As at March 14, 1997, the Company also operated four insurance subsidiaries which sell a variety of life insurance products, primarily to fund funerals purchased through a pre-need arrangement.

The funeral service industry has a number of attractive characteristics. Historically the funeral service industry has had a low business failure risk compared with most other businesses and has not been significantly affected by economic or market cycles. According to the 1994 Business Failure Record published by The Dun & Bradstreet Corporation, the average business failure rate in the United States in 1994 was 86 per 10,000. The 1994 failure rate of the funeral service and crematoria industry was 8 per 10,000, among the lowest of all industries. In addition, future demographic trends are expected to contribute to the continued stability of the funeral service industry. The U.S. Department of Commerce, Bureau of the Census, projects that the number of deaths in the United States will grow at approximately 1.0% annually from 1990 through 2010. Finally, the funeral service industry in North America is highly fragmented, consisting primarily of small, stable, family-owned businesses. Management estimates that notwithstanding the increasing trend toward consolidation over the last few years, only approximately 11% of the 23,500 funeral homes and approximately 9% of the 11,000 cemeteries in North America are currently owned and operated by the five largest publicly-traded North American funeral service companies.

The Company capitalizes on these attractive industry fundamentals through a growth strategy that emphasizes three principal components: (i) acquiring a significant number of small, family-owned funeral homes and cemeteries; (ii) acquiring "strategic" operations consisting predominantly of large, multi-location urban properties that generally serve as platforms for acquiring small, family-owned businesses in surrounding regions; and (iii) improving the revenue and profitability of newly-acquired and established operations. As a result of the successful implementation of this strategy, the Company has grown significantly. Managing the Company's growth is critical to profitability, and will continue to be one of the most important responsibilities and challenges facing the Company.

On January 7, 1997, SCI publicly withdrew its unsolicited proposal to acquire Loewen through an exchange offer announced in October 1996. SCI had proposed to exchange $45 worth of common stock for each Common share of Loewen tendered and $29.51 worth of common stock for each Series C Preferred Share of Loewen tendered. In October 1996, the Loewen Board of Directors unanimously determined that the offer was inadequate and not in the best interests of Loewen or its shareholders and recommended that, if the offer were commenced, Loewen shareholders should not tender their shares.

Results of Operation

Detailed below are the Company's operating results for the years ended December 31, 1996, 1995 and 1994, expressed in dollar amounts as well as relevant percentages. Revenue, gross margin data and expenses other than income taxes are presented as a percentage of revenue. Income taxes are presented as a percentage of earnings (loss) before income taxes, including equity and other earnings of associated companies.

The Company's operations are comprised of three business divisions: funeral homes, cemeteries and insurance. See Note 18 to the 1996 Consolidated Financial Statements.

Year Ended December 31,	(in millions) 1996	1995	1994	(percentages) 1996	1995	1994
Revenue						
Funeral	$ 549.8	$ 441.4	$ 353.9	60.5	73.8	84.8
Cemetery	286.7	143.6	63.4	31.6	23.9	15.2
Insurance	71.9	13.5	—	7.9	2.3	—
Total	$ 908.4	$ 598.5	$ 417.3	100.0	100.0	100.0
Gross margin						
Funeral	$ 222.9	$ 182.5	$ 143.4	40.6	41.3	40.5
Cemetery	95.2	39.9	15.5	33.2	27.8	24.3
Insurance	19.5	3.0	—	27.1	22.3	—
Total	337.6	225.4	158.9	37.2	37.7	38.1
Expenses						
General and administrative	76.7	67.7	34.8	8.4	11.3	8.3
Depreciation and amortization	56.8	40.1	29.0	6.3	6.7	6.9
Earnings from operations	204.1	117.6	95.1	22.5	19.7	22.9
Interest on long-term debt	88.9	50.9	34.2	9.8	8.5	8.2
Finance costs related to hostile takeover proposal	3.2	—	—	0.4	—	—
Other costs related to hostile takeover proposal	15.5	—	—	1.7	—	—
Legal settlements and litigation related finance costs	—	184.9	—	—	30.9	—
Dividends on preferred securities of subsidiary	7.1	7.1	2.7	0.8	1.2	0.6
Income taxes	29.1	(47.2)	19.7	31.3	(38.1)	33.9
	60.3	(78.1)	38.5	6.6	(13.1)	9.2
Equity and other earnings of associated companies	3.6	1.4	—	0.4	0.3	—
Net earnings (loss)	$ 63.9	$ (76.7)	$ 38.5	7.0	(12.8)	9.2

Year Ended December 31, 1996 Compared to Year Ended December 31, 1995

Consolidated revenue increased 51.8% to $908.4 million in the year ended December 31, 1996 from $598.5 million in 1995. Consolidated gross margin increased 49.8% to $337.6 million in 1996 from $225.4 million in 1995. As a percentage of revenue, consolidated gross margin decreased to 37.2% in 1996 from 37.7% in 1995, principally due to the increased proportion of cemetery and insurance revenue with associated lower margins and the decrease in funeral gross margin as a percentage of funeral revenue. The Company anticipates that the consolidated gross margin as a percentage of revenue will continue to decline slightly, primarily as a result of continued acquisition and internally-generated growth in the cemetery and insurance divisions.

Funeral revenue increased 24.6% to $549.8 million in 1996 compared to $441.4 million in 1995, primarily due to acquisitions. Funeral revenue for 1996 includes $4.4 million of commission income received by the Company due to certain non-recurring conversions of trust investments to insurance investments. The number of funeral services performed at locations in operation for all of 1995 and 1996 ("Established Locations") declined by 3.2% from 1995 to 1996; however, this was offset by a higher average revenue per funeral service. Funeral gross margin as a percentage of funeral revenue for Established Locations decreased slightly to 41.7% in 1996 from 42.1% in 1995, as the $2.5 million increase in revenue was more than offset by a $2.7 million increase in costs. As a result of such decrease, together with the lower margins of acquired funeral locations, overall funeral gross margin as a percentage of funeral revenue decreased to 40.6% in 1996 from 41.3% in 1995.

Cemetery revenue increased 99.7% to $286.7 million in 1996 compared to $143.6 million in 1995, primarily due to acquisitions. Cemetery gross margin increased to 33.2% in 1996 from 27.8% in 1995 principally as a result of a shift to increased sales of interment services for newly acquired as well as existing locations. Management believes that the cemetery gross margin is sustainable at 30% to 32% in 1997. Historically, many of the Company's cemeteries had focused their marketing activities on the sale of cemetery interment rights and related merchandise. During 1996, management implemented sales programs designed to encourage existing pre-need cemetery customers, who are already committed to Company owned cemeteries, as well as new customers, to purchase interment services on a pre-need basis. For Established Locations, cemetery gross margin increased to 31.2% in 1996 from 26.5% in 1995, primarily as a result of an increase in revenue of $15.2 million, with a $6.1 million increase in costs.

Insurance revenue increased to $71.9 million for 1996 from $13.5 million in 1995. The increase was due primarily to the integration of the March 1996 acquisition of certain net assets of S.I. Acquisition Associates, L.P. ("S.I.") for approximately $150 million (including related costs), which assets included two insurance companies. The increase in gross margin for insurance operations to 27.1% for 1996 from 22.3% in 1995 reflects primarily the impact of certain non-recurring revisions to actuarial assumptions in the amount of $4.6 million.

In addition to its focus on quality at-need funeral and cemetery services, the Company provides advanced funeral and cemetery planning to the communities it serves. The Company's gross pre-arranged funeral sales increased to approximately $190 million in 1996 from approximately $97 million in 1995. Pre-arranged funeral services comprised approximately 15% of the funeral services performed by the Company in 1996 and approximately 16% of the funeral services performed by the Company in 1995. Although pre-need funeral sales increased in 1996, the Company does not expect pre-arranged funeral services as a percentage of funeral services performed by the Company to vary significantly in 1997 and 1998. The Company estimates that it had a backlog of approximately $840 million in pre-need funeral sales as of December 31, 1996. Approximately 66% of the Company's cemetery revenue in 1996 was generated from pre-need sales compared with 61% in 1995. The Company anticipates approximately the same mix between pre-need and at-need cemetery sales for at least the next two years. Note 1 to the 1996 Consolidated Financial Statements provides information regarding the accounting treatment of pre-arranged funeral services and pre-need cemetery sales.

United States based operations contributed 93.5 % of 1996 consolidated revenue compared with 91.3% in 1995.

General and administrative expenses, as a percentage of revenue, decreased to 8.4% in 1996 from 11.3% in 1995. For the year ended December 31, 1996, general and administrative expenses increased 13.4% to $76.7 million from $67.7 million in 1995. Included in the general and administrative expense for 1995 were $10.8 million for professional fees and other costs related to the Gulf National and Provident litigations and settlements, and a $3.5 million write-off of acquisition costs. The increase in general and administrative expenses in 1996 is primarily a result of the expansion of the Company's infrastructure necessary to purchase, integrate and operate newly acquired locations, particularly in the cemetery division.

The $3.2 million of finance costs related to the hostile takeover proposal by SCI are comprised of $1.9 million paid to Company lenders for waiver fees and $1.3 million in additional interest costs relating to the October 1996 senior guaranteed note issue. See "Liquidity and Capital Resources" and Note 14 to the 1996 Consolidated Financial Statements. The $15.5 million of other costs related to the hostile takeover proposal by SCI are comprised of $9.9 million of legal fees, $2.0 million of investment banking advisory fees and $3.6 million of fees to other advisors. No tax benefit relating to these other costs is reflected in the 1996 Consolidated Financial Statements. See Note 14 to the 1996 Consolidated Financial Statements.

Interest expense on long-term debt increased by $38.0 million in 1996 primarily as a result of additional borrowings by the Company to finance its acquisitions and higher borrowing costs due to lower credit ratings. As a percentage of revenue, depreciation and amortization decreased to 6.3% in 1996 from 6.7% in 1995, principally due to the increased proportion of cemetery acquisitions.

Income taxes were $29.1 million for 1996, resulting in an effective tax rate of 31.3% for the year, after giving effect to the other costs related to the hostile takeover proposal for which no tax benefit has been provided. In 1995, the Company recorded a deferred tax benefit of $60.3 million relating to the settlements of the Gulf National and Provident litigations. Prior to the tax recovery, 1995 income taxes were $13.2 million, resulting in an effective rate of 32.0%. The decrease in the effective annual tax

rate is due to the expansion of the Company's international and intercompany financing arrangements, offset by the costs related to the hostile takeover proposal for which no tax benefit has been provided.

Net earnings increased to $63.9 million in 1996 from a net loss of $76.7 million in 1995. Fully diluted earnings per share ("EPS") increased to $0.97 per share from a loss of $1.69 per share in 1995. The net loss and loss in EPS for 1995 were primarily due to the impact of the Gulf National and Provident litigations and settlements. The Company's statement of changes in financial position for the year ended December 31, 1996 reflects cash applied to operations of approximately $135 million, primarily as a result of legal settlements of $165 million recorded in 1995 but funded in the first quarter of 1996.

Year Ended December 31, 1995
Compared to Year Ended December 31, 1994

The results for the year ended December 31, 1995 were significantly affected by the Gulf National jury award of $500 million in November 1995 and the subsequent settlements of the Gulf National and Provident litigations during the first quarter of 1996. The related costs are reflected primarily in the results for the three months ended December 31, 1995. For that period, the Company recorded a net loss of $113.2 million as compared to net earnings of $11.4 million in the same period of 1994. For the year ended December 31, 1995, the Company recorded a net loss of $76.7 million compared to net earnings of $38.5 million in 1994.

Consolidated revenue increased 43.4% to $598.5 million in the year ended December 31, 1995 from $417.3 million in 1994, with funeral revenue increasing 24.6% and cemetery revenue increasing 126.4%. Consolidated gross margin increased 41.9% to $225.4 million in 1995 from $158.9 million in 1994. As a percentage of revenue, funeral gross margin increased to 41.3% in 1995 from 40.5% in 1994 and cemetery gross margin increased to 27.8% in 1995 from 24.3% in 1994. As a result of the change in mix between funeral and cemetery operations, the combined gross margin decreased to 37.7% in 1995 from 38.1% for the same period in 1994.

Funeral revenue increased 24.6% to $441.4 million in 1995 compared with $353.9 million in 1994, primarily due to acquisitions. The funeral revenue from Established Locations in operation for all of 1994 and 1995 increased by $7.5 million while corresponding funeral gross margins increased from 40.6% to 42.1%. With the implementation of merchandising programs and inflation-based price increases, the Company was able to more than offset a 1.3% decline in the number of funeral services performed at Established Locations.

Cemetery revenue increased 126.4% to $143.6 million in 1995 compared with $63.4 million in 1994, primarily due to acquisitions. Cemetery gross margin increased to 27.8% in 1995 from 24.3% in 1994, primarily as a result of increased sales activity and the integration of acquisitions with a higher cemetery gross margin. The cemetery revenue from Established Locations in operation for all of 1994 and 1995 increased by $12 million, while corresponding cemetery gross margins increased from 26.6% to 29.0%, both principally due to a higher level of pre-need sales at higher margins.

In 1995, approximately 16% of the funeral services performed by the Company were pre-arranged, an increase from 15% in 1994. During 1995, the Company sold approximately 28,000 funeral services to families planning in advance compared with approximately 24,000 funeral services in 1994. In 1995, approximately 61% of the Company's cemetery revenue was generated from pre-need sales compared with 53% in 1994.

Insurance revenue in 1995 was $13.5 million. The Company determined in 1995 that it would not, as previously planned, sell a life insurance subsidiary which had been acquired in connection with a larger acquisition in 1994 with the intent that it be sold. The subsidiary was accounted for at cost from the date of acquisition to June 30, 1995. Beginning July 1, 1995, the Company reported the operations of the life insurance subsidiary on a consolidated basis.

United States based operations contributed 91.3% of 1995 consolidated revenue compared with 88.4% in 1994.

For the year ended December 31, 1995, general and administrative expenses increased 94.7% to $67.7 million from $34.8 million in 1994. As a percentage of consolidated revenue, general and administrative expenses in 1995 were 11.3% as compared with 8.3% in 1994. Included in general and administrative expenses in 1995, and principally in the fourth quarter, are litigation, acquisition and other expenses, including $10.8 million for professional fees and other costs related to the Gulf National and Provident litigation and settlements, and a $3.5 million write-off of acquisition costs. The remaining increase in general and administration expenses can be attributed to an expansion of the Company's infrastructure as a result of the integration of acquired operations.

Interest expense on long-term debt increased by $16.7 million in 1995 primarily as a result of additional borrowings by the Company to finance its acquisitions. The Company's credit ratings were reduced as a result of the Gulf National award.

The dividends on preferred securities increased from $2.7 million to $7.1 million as a result of the MIPS issued by an affiliated entity in 1994 being outstanding for a full year.

The Company recorded an expense of $165.0 million for the year ended December 31, 1995 for the Gulf National and Provident settlements announced on January 29, 1996 and February 12, 1996, respectively. The accrual of $135.0 million for the Gulf National settlement consisted of (i) $50.0 million recorded in current liabilities in respect of a cash payment made in February 1996, (ii) $45.0 million recorded in shareholders' equity for the issue of 1.5 million Common shares in February 1996 with a price guarantee of $30 per share in certain circumstances, and (iii) $40.0 million recorded as long-term debt representing the discounted value of a non-interest bearing promissory note dated January 31, 1996 with payments of $4.0 million per annum over 20 years.

The accrual of $30 .0 million for the Provident settlement consisted of (i) $3.0 million recorded in current liabilities in respect of a payment made March 19, 1996 and (ii) $27.0 million recorded in shareholders' equity for the issue in March 1996 of one million Common shares with a price guarantee of $27 in certain circumstances.

The deferred income tax benefit of $60.3 million from the Gulf National and Provident settlements has been recorded as a deferred income tax asset. Prior to the tax recovery from the Gulf National and Provident settlements, income taxes were $13.2 million, an effective rate of 32.0%, compared with $19.7 million in 1994, an effective rate of 33.9%. The decrease in the effective tax rate in 1995 was primarily due to the expansion of the Company's international and intercompany financing arrangements. As a result of the above, the Company shows a net income tax recovery of $47.2 million versus a net income tax expense of $19.7 million in 1994.

As a result of litigation during 1995 and the resulting Gulf National and Provident settlements, litigation-related finance costs, aggregating $19.9 million, were expensed in 1995. These finance costs consisted of (i) $7.4 million of finance costs incurred as a result of posting a $125 million bond in connection with the appeal of the Gulf National award, (ii) $3.9 million for amendment of bank facilities due to litigation and write-off of related existing deferred financing costs, and (iii) $8.6 million including $7.1 million for the termination of interest rate agreements and a $1.5 million unrealized loss with respect to interest rate agreements entered into in anticipation of a long-term debt issue that was aborted as a result of the Gulf National award.

The cash provided from operations for 1995 decreased from $43.3 million to $10.4 million primarily as a result of increased expenses associated with the Gulf National litigation and increases in required working capital and other non-cash balances arising from the additional cemetery operations.

Acquisitions, Investments and Capital Expenditures

The Company acquired 159 funeral homes, 136 cemeteries and two insurance companies during 1996 for consideration of approximately $620 million through 168 separate acquisition transactions. Of these acquisitions, 149 funeral homes, 135 cemeteries and the two insurance companies were located in the United States and the balance were located in Canada. Included in these acquisitions is the March 1996 purchase of 15 funeral homes, two cemeteries and two insurance companies from S.I. Acquisition Associates, L.P. for approximately $150 million (including related costs). As a result of this acquisition, the Company recorded approximately $186 million of insurance invested assets and approximately $125 million of insurance policy liabilities. During 1995, the Company acquired 177 funeral homes and 64 cemeteries for consideration of approximately $488 million.

In connection with certain acquisitions the Company may issue Common shares as full or partial payment of the purchase price ("share-for-share acquisitions"). In August 1996, the Company registered with the Securities and Exchange Commission 5,000,000 Common shares for issuance in connection with prospective share-for-share acquisitions. In September 1996, the Company issued 69,533 of such Common shares in connection with one share-for-share acquisition.

From time to time, the Company may dispose of non-core assets or businesses acquired in conjunction with the acquisition of funeral homes and cemeteries. In addition, the Company expects to continue to combine or sell a small number of locations in order to utilize its resources to produce a better return from its assets.

As of March 14, 1997, the Company had signed agreements, some of which are non-binding, for the acquisition of 51 additional funeral homes and 78 additional cemeteries aggregating approximately $222 million. The Company expects to close a majority of such acquisitions in the first half of 1997. In addition, in the ordinary course of its business, the Company continually is in the process of evaluating or negotiating prospective acquisitions in competition with other potential purchasers. From time to time, the Company may evaluate or negotiate potential acquisitions, which, if consummated, may be considered significant based on acquisition price.

In November 1996, Rose Hills Holding Corp. ("RH Holdings"), a company formed by Blackstone Capital Partners II Merchant Banking Fund L.P. ("Blackstone") and LGII, acquired the cemetery and mortuary operations and assets of The Rose Hills Memorial Park Association and Roses, Inc. of Los Angeles (together, "Rose Hills"). The principal assets of Rose Hills are the Rose Hills Memorial Park, the largest cemetery in North America, and a mortuary that serves more families annually than any other single mortuary location in the United States. To fund the aggregate transaction price of approximately $285 million, Blackstone and LGII contributed approximately $35 million and $72 million, respectively, to RH Holdings, and an affiliate of LGII contributed 14 funeral homes and two combination funeral home/cemetery operations located in Los Angeles and Orange counties that were valued at $23 million. The remaining $155 million was funded with debt from banks and other institutional investors. For its contribution, Blackstone received a controlling interest in RH Holdings. Blackstone also controls the Board of Directors of RH Holdings. For their contributions, LGII and its affiliate received approximately 20.5% of the outstanding common stock of RH Holdings and an aggregate of $86 million of preferred stock of RH Holdings. The preferred stock constitutes all of the outstanding preferred stock of RH Holdings and has an annual payment-in-kind dividend of 10%. Pursuant to a put/call agreement between the Company and Blackstone, the Company has an option to acquire Blackstone's common share interest in RH Holdings in certain circumstances (a "call"), and Blackstone has the option to sell its common share interest in RH Holdings to the Company in certain circumstances (a "put"). Upon a call, Blackstone will receive at a minimum, its original investment and a 22.5% compound return per annum thereon regardless of the calculated equity value. Any additional equity attributable to Blackstone's common share interest will be determined on the basis of a formula set forth in the put/call agreement. Upon a put, there will be no guaranteed return to Blackstone. Any payment to Blackstone will be limited to Blackstone's share of the calculated equity value based on a formula (including earnings before interest, taxes, depreciation and amortization) set forth in the terms of the put/call agreement.

In August 1996, Prime Succession Holdings, Inc. ("Prime"), a company formed by Blackstone and LGII, acquired all of the outstanding shares of Prime Succession, Inc., which at that time was the largest privately-held funeral services company in North America, with 146 funeral homes and 16 cemeteries in 20 states. To fund the aggregate transaction price of approximately $320 million, Blackstone and LGII contributed approximately $52 million and approximately $78 million, respectively, to Prime. The remaining $190 million was funded with debt from banks and other institutional investors. For its contribution, Blackstone received a controlling interest in Prime. Blackstone also controls the Board of Directors of Prime. For its contribution, LGII received approximately 21.8% of the outstanding common stock of Prime and $63.5 million of preferred stock of Prime. The preferred stock constitutes all of the outstanding preferred stock of Prime and has an annual payment-in-kind dividend of 10%. Pursuant to a put/call agreement between the Company and Blackstone, the Company has an option to acquire Blackstone's common share interest in Prime in certain circumstances, and Blackstone has the option to sell its common share interest in Prime to the Company in certain circumstances. Upon a call, Blackstone will receive, at a minimum, its original investment plus a 24.1% compound return per annum thereon regardless of the calculated equity value. Any additional equity attributable to Blackstone's common share interest will be determined on the basis of a formula set forth in the put/call agreement. Upon a put, there is no guaranteed return to Blackstone. Any payment to Blackstone will be limited to Blackstone's share of the calculated equity value based on a formula (involving earnings before interest, taxes, depreciation and amortization) set forth in the terms of the put/call agreement.

With respect to each of RH Holdings and Prime, the call option can be exercised on the fourth anniversary of the respective closing date and for two years thereafter, and the put option can be exercised beginning on the sixth anniversary of the respective closing date and for two years thereafter.

See Note 4 to the 1996 Consolidated Financial Statements for additional information regarding RH Holdings and Prime, including further discussions of the put and call options.

Liquidity and Capital Resources

The Company plans to fund future acquisitions through a combination of debt and equity offerings and borrowings under its credit facilities (described below). The Company believes that cash flow from operations generally will be sufficient to meet working capital and short-term liquidity requirements for current operations and to fund interest payments and dividends on outstanding Common and preferred shares. The Company plans to finance principal repayments on debt primarily through the issue of additional debt or equity or borrowings under revolving credit facilities and plans to ensure financing is available well in advance of scheduled principal repayment dates, thereby protecting the Company's liquidity and maintaining its financial flexibility.

The Company's objective is to maintain its long-term debt/equity ratio, on average, in a range of 1.0:1 to 1.5:1. Due to the timing of its ongoing acquisition program, the Company's long-term debt/equity ratio typically will rise to the high end of the range, and then will be reduced substantially by an equity issue. At December 31, 1996 the Company's long-term debt/equity ratio was 1.4:1.

The Company's balance sheet at December 31, 1996, as compared to December 31, 1995, reflects changes principally from acquisitions during 1996, as described further in Note 2 to the 1996 Consolidated Financial Statements. In addition, the Company's investments in Prime and Rose Hills together increased investments on the balance sheet by $173 million, as further described in Note 4 to the 1996 Consolidated Financial Statements. As at December 31, 1995, there was a working capital deficiency arising from the $53 million accrual for the cash payments required to be made in 1996 under the Gulf National and Provident settlements. The $50 million payment for the Gulf National settlement was funded in 1996 by borrowings under the Company's credit facilities.

During 1995 and 1996 the Company significantly expanded its cemetery pre-need sales programs. Cemetery pre-need sales typically are structured with low initial cash payments by the customer. The balance due is recorded as an installment contract receivable and the future liability for merchandise as an other liability. The increase in the level of pre-need sales has resulted in an increase in both current and long-term receivables and other liabilities.

Equity Offerings

In January 1996, Loewen completed a public offering (the "1996 Preferred Share Offering") in Canada and a simultaneous private placement in the United States of Series C Receipts representing 8,800,000 Series C Preferred Shares for gross proceeds of Cdn. $220 million (U.S.$161 million), which were deposited with an escrow agent. The net proceeds were released to the Company periodically to fund acquisitions by depositing with the escrow agent an equal dollar amount of Series C Preferred Shares. By June 1996, all of the Series C Preferred Shares had been deposited with the escrow agent, all of the net proceeds had been released to the Company and the Series C Preferred Shares were released to the holders of the Series C Receipts. Each Series C Preferred Share is convertible into 0.6557 of a Common share at the option of the holder of Series C Preferred Shares, subject to certain conditions. See Note 9 to the 1996 Consolidated Financial Statements for additional information regarding the Series C Preferred Shares.

In March 1996, Loewen completed a public offering in Canada and a simultaneous private placement in the United States of 7,000,000 Common shares and, in April 1996, sold an additional 700,000 Common shares (pursuant to the exercise of an over-allotment option) for aggregate gross proceeds of approximately Cdn.$302 million (U.S.$221 million) (the "1996 Common Share Offering"). The net proceeds of the 1996 Common Share Offering were used to pay down the then outstanding balance on the Multi-Currency Revolver (described below) and for general corporate purposes, including acquisitions.

Indebtedness

In March 1996, concurrently with the 1996 Common Share Offering, LGII issued two series of senior guaranteed notes (the "Series 1 and 2 Notes") in the United States for aggregate gross proceeds of $350 million (the "Series 1 and 2 Senior Notes Offering"). The Series 1 and 2 Notes are guaranteed by Loewen. The net proceeds of the Series 1 and 2 Senior Notes Offering were used to repay the then outstanding balance on the Multi-Currency Revolver in full and for general corporate purposes, including acquisitions.

In October 1996, LGII issued two additional series of senior guaranteed notes (the "Series 3 and 4 Notes") in the United States for aggregate gross proceeds of $350 million (the "Series 3 and 4 Senior Notes Offering"). The Series 3 and 4 Notes are guaranteed by Loewen. The net proceeds of the Series 3 and 4 Senior Notes Offering were used primarily to repay indebtedness under the 1996 Revolving Credit Facility (described below), and the balance of the net proceeds were used for general corporate purposes, including acquisitions and interest and principal payments on existing senior notes.

In addition to the Series 1 through 4 Notes, LGII and Loewen have outstanding at December 31, 1996 an aggregate of $208 million of senior amortizing notes, issued in five series (Series A through Series E) in 1991, 1993, and 1994 (the "Series A-E Senior Notes"). The Series A-E Senior Notes bear interest at rates ranging from 6.49% to 9.93% and have initial terms of seven to ten years.

Loewen also has a Cdn.$50 million revolving credit facility that matures in July 1999 (the "Canadian Revolver"), which was amended in July 1996 to modify certain covenants to parallel the 1996 Revolving Credit Facility. A subsidiary of Loewen has a $108 million secured term loan implemented in connection with the 1994 Management Equity Investment Plan that will terminate in July 2000 (the "MEIP Loan"), which also was amended in July 1996 to modify certain covenants to parallel the 1996 Revolving Credit Facility. Loewen has a Cdn.$35 million five-year term loan that will terminate in January 2000 (the "Canadian Term Loan").

In May 1996, LGII entered into a five-year $750 million secured revolving credit facility (the "1996 Revolving Credit Facility") with a syndicate of banks. The 1996 Revolving Credit Facility matures in May 2001 and bears interest at alternative rates selected by LGII. At December 31, 1996, the amount outstanding under the 1996 Revolving Credit Facility was $237 million, and such amount bore interest at 6.87% per annum.

Prior to entering into the 1996 Revolving Credit Facility, LGII had a $400 million unsecured multi-currency revolving credit facility with a syndicate of banks that was scheduled to mature in May 2000 and a $100 million 364-day unsecured multi-currency revolving credit facility with the same syndicate of banks that expired on May 10, 1996 (together, the "Multi-Currency Revolver"). The Multi-Currency Revolver was repaid in full and retired on May 31, 1996.

Also on May 31, 1996, Loewen, LGII and their senior lenders entered into a collateral trust arrangement pursuant to which the senior lenders share certain collateral on a pari passu basis. The collateral includes (i) a pledge for the benefit of the senior lenders of the shares of capital stock held by Loewen of substantially all of the Loewen subsidiaries and (ii) all of the financial assets of LGII (including the shares of capital stock held by LGII of various subsidiaries). The collateral is held by a trustee for the equal and ratable benefit of the various holders of senior indebtedness. This senior lending group consists principally of the lenders under the 1996 Revolving Credit Facility, the Canadian Revolver, the MEIP Loan, and the Canadian Term Loan as well as the holders of certain letters of credit, the Series A-E Senior Notes, the Series 1 and 2 Notes and the Series 3 and 4 Notes.

Restrictions on Payment of Dividends

Certain of the Company's debt instruments and credit facilities contain restrictions, including change of control provisions and provisions restricting payment of dividends on Common and preferred shares, restricting encumbrance of assets, limiting redemption or repurchase of shares, limiting disposition of assets, limiting the amount of additional debt, limiting the amount of capital expenditures and requiring the Company to maintain specified financial ratios. At December 31, 1996, approximately $26 million of the Company's retained earnings were not restricted and available for payment of dividends under the most restrictive agreement. See Note 6 to the 1996 Consolidated Financial Statements.

In conjunction with the issuance of the MIPS by LGC in August 1994, Loewen is guarantor of a Series A Junior Subordinate Debenture due August 31, 2024 issued by LGII (the "Series A Debenture"). Under the terms of the Series A Debenture, Loewen may not pay dividends on its common shares if (i) there shall have occurred any event that, with the giving of notice or the lapse of time, or both, would constitute an Event of Default (as defined in the Series A Debenture), (ii) Loewen is in default with respect to payment of any obligation under certain related guarantees or (iii) LGII shall have given notice of its election to select an Extension Period(as defined in the Series A Debenture), and such period, or any extension thereof shall be continuing. For further information regarding the MIPS, see Note 7 to the 1996 Consolidated Financial Statements.

Payments of dividends and loans and advances by subsidiaries to Loewen or LGII are not restricted except that the Company's insurance subsidiaries are subject to certain state regulations which restrict distributions, loans and advances from such subsidiaries to the Company.

Interest Rate Risk Management

The Company enters into derivative transactions with financial institutions only as hedges of other financial transactions and not for speculative purposes. The Company's policies do not allow leveraged transactions and are designed to minimize credit and concentration risk with counter-parties. The Company's practice is to use swaps and options to manage its exposure to interest rate movements. The Company's strategy is to maintain an average of between 60% and 80% of its debt subject to fixed interest rates, although at any point in time during a period the percentage of debt subject to fixed interest rates may be higher or lower. The Company also uses futures and options to fix the interest rate of anticipated financing transactions in advance. All derivatives are entered into as hedges based on several criteria, including the timing, size and term of the anticipated transaction. Any gain or loss from an effective hedging transaction is deferred and amortized over the life of the financing transaction as an adjustment to interest expense.

Sources and Uses of Capital

The following table summarizes the sources and uses of capital for the past three years based on the Company's Consolidated Statements of Changes in Financial Position.

	Year Ended December 31,		
(in millions)	1996	1995[1]	1994
Sources of capital:			
Cash provided by operations	$ (134.5)	$ 10.4	$ 43.3
Issue of common share capital	300.6	203.1	53.3
Issue of preferred securities of subsidiary	—	—	75.0
Issue of preferred shares	154.1	—	—
Net change in long-term debt and current note payable	575.4	381.2	172.9
Total	$ 895.6	$ 594.7	$ 344.5
Uses of capital:			
Business acquisitions (net of debt and liabilities assumed)	$ 619.6	$ 487.9	$ 265.6
Construction of new facilities	17.7	14.7	14.1
Investments, net	171.4	15.7	30.9
Net capital expenditures	30.8	17.9	13.6
Net purchase of insurance invested assets	34.4	—	—
Common share dividends	11.4	2.4	2.9
Preferred share dividends	8.9	—	—
Increase (decrease) in cash and cash equivalents	(21.3)	27.3	(2.5)
Other	22.7	28.8	19.9
Total	$ 895.6	$ 594.7	$ 344.5

[1] *Certain of the comparative figures have been reclassified to conform to the presentation adopted in 1996.*

Management's Statement of Responsibility

The management of The Loewen Group Inc. is responsible for the preparation of the accompanying consolidated financial statements and the preparation and presentation of all information in the Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are considered by management to present fairly the financial position and operating results of the Company.

The Company maintains various systems of internal control to provide reasonable assurance that transactions are appropriately authorized and recorded, that assets are safeguarded, and that financial records are properly maintained to provide accurate and reliable financial statements.

The Company's audit committee is composed entirely of non-management directors and is appointed by the Board of Directors annually. The committee meets periodically with the Company's management and independent auditors to review financial reporting matters and internal controls and to review the consolidated financial statements and the independent auditors' report. The audit committee reported its findings to the Board of Directors who have approved the consolidated financial statements.

The Company's independent auditors, KPMG, have examined the consolidated financial statements and their report follows.

RAYMOND L. LOEWEN
Chairman and Chief Executive Officer

DOUGLAS J. MCKINNON
Executive Vice-President

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of The Loewen Group Inc. as at December 31, 1996 and 1995 and the consolidated statements of operations, retained earnings and changes in financial position for each of the years in the three year period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1996, in accordance with generally accepted accounting principles in Canada. As required by the Company Act of the Province of British Columbia, we report that, in our opinion, these principles have been applied on a consistent basis.

KPMG

CHARTERED ACCOUNTANTS
Vancouver, Canada
March 3, 1997

CONSOLIDATED BALANCE SHEETS

Expressed in thousands of U.S. dollars

December 31,	1996	1995
ASSETS		
Current assets		
Cash and term deposits	$ 18,059	$ 39,454
Receivables, net of allowances	187,617	115,953
Inventories	32,008	27,489
Prepaid expenses	11,545	8,185
	249,229	191,081
Prearranged funeral services	334,420	245,854
Long-term receivables, net of allowances	288,579	167,367
Investments	266,228	86,815
Insurance invested assets	296,249	97,024
Cemetery property, at cost	615,192	369,022
Property and equipment	686,285	551,965
Names and reputations	558,710	424,944
Deferred income taxes	67,904	61,959
Other assets	134,143	66,949
	$ 3,496,939	$ 2,262,980
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current indebtedness	$ —	$ 38,546
Accrued settlements	—	53,000
Accounts payable and accrued liabilities	114,072	80,058
Long-term debt, current portion	79,580	69,671
	193,652	241,275
Long-term debt	1,428,641	864,838
Other liabilities	204,546	136,433
Insurance policy liabilities	212,480	84,898
Deferred prearranged funeral services revenue	334,420	245,854
Preferred securities of subsidiary	75,000	75,000
Shareholders' equity		
Common shares	796,431	490,055
Common shares issuable under legal settlements	—	72,000
Preferred shares	157,146	—
Retained earnings	80,117	36,439
Foreign exchange adjustment	14,506	16,188
	1,048,200	614,682
	$ 3,496,939	$ 2,262,980

Commitments and contingencies (Notes 6, 11, 12 and 20)

See accompanying notes to consolidated financial statements.

On behalf of the Board

Director

Chuck Loewen

Director

Consolidated Statements of Operations

Expressed in thousands of U.S. dollars except per share amounts

Years ended December 31,	1996	1995	1994
Revenue			
Funeral	$ 549,833	$ 441,352	$ 353,904
Cemetery	286,652	143,577	63,424
Insurance	71,900	13,564	—
	908,385	598,493	417,328
Costs and expenses			
Funeral	326,892	258,872	210,471
Cemetery	191,473	103,726	48,003
Insurance	52,449	10,533	—
	570,814	373,131	258,474
	337,571	225,362	158,854
Expenses			
General and administrative	76,703	67,652	34,751
Depreciation and amortization	56,763	40,103	28,990
	133,466	107,755	63,741
Earnings from operations	204,105	117,607	95,113
Interest on long-term debt	88,932	50,913	34,203
Finance costs related to hostile takeover proposal	3,230	—	—
Other costs related to hostile takeover proposal	15,448	—	—
Litigation related finance costs	—	19,914	—
Legal settlements	—	165,000	—
Earnings (loss) before undernoted items	96,495	(118,220)	60,910
Dividends on preferred securities of subsidiary	7,088	7,088	2,678
Earnings (loss) before income taxes and undernoted items	89,407	(125,308)	58,232
Income taxes			
Current	22,544	29,379	17,053
Deferred	6,551	(76,557)	2,685
	29,095	(47,178)	19,738
	60,312	(78,130)	38,494
Equity and other earnings of associated companies	3,594	1,446	—
Net earnings (loss) for the year	$ 63,906	$ (76,684)	$ 38,494
Basic earnings (loss) per Common share	$ 0.97	$ (1.69)	$ 0.97
Fully diluted earnings (loss) per Common share	$ 0.97	$ (1.69)	$ 0.97

Consolidated Statements of Retained Earnings

Expressed in thousands of U.S. dollars except per share amounts

Years ended December 31,	1996	1995	1994
Retained earnings, beginning of year	$ 36,439	$ 115,492	$ 79,867
Net earnings (loss)	63,906	(76,684)	38,494
Common share dividends	(11,354)	(2,369)	(2,869)
Preferred share dividends	(8,874)	—	—
Retained earnings, end of year	$ 80,117	$ 36,439	$ 115,492
Dividend per Common share	$ 0.200	$ 0.050	$ 0.070
Dividend per Preferred share	$ 1.008	$ —	$ —

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Expressed in thousands of U.S. dollars

Years ended December 31,	1996	1995	1994
Cash Provided By (applied to)			
Operations			
Net earnings (loss)	$ 63,906	$ (76,684)	$ 38,494
Items not affecting cash			
Depreciation and amortization	56,763	40,103	28,990
Deferred income taxes	6,551	(76,557)	2,685
Equity and other earnings of associated companies	(3,594)	(1,446)	—
Other	25,315	14,541	2,455
Common shares and debt issuable under legal settlements	(112,000)	112,000	—
Net changes in other non-cash balances	(171,450)	(1,552)	(29,340)
	(134,509)	10,405	43,284
Investing			
Business acquisitions	(619,632)	(487,948)	(265,638)
Construction of new facilities	(17,719)	(14,695)	(14,114)
Investments, net	(171,398)	(15,719)	(30,917)
Purchase of insurance invested assets	(106,335)	—	—
Proceeds on disposition of insurance invested assets	71,939	—	—
Purchase of property and equipment	(54,911)	(21,369)	(17,890)
Proceeds on disposition of assets	24,067	3,490	4,263
Proceeds on disposition of insurance operations	—	—	(4,304)
Other	2,335	(32,932)	(17,386)
	(871,654)	(569,173)	(345,986)
Financing			
Issue of Common shares, before income tax recovery	300,583	203,056	53,388
Issue of Preferred shares, before income tax recovery	154,094	—	—
Issue of preferred securities of subsidiary	—	—	75,000
Increase in long-term debt	1,128,449	396,461	187,357
Reduction in long-term debt	(514,510)	(53,793)	(14,465)
Common share dividends	(11,354)	(2,369)	(2,869)
Preferred share dividends	(8,874)	—	—
Current note payable	(38,546)	38,546	—
Other	(25,004)	4,121	1,744
	984,838	586,022	300,155
Increase (decrease) in cash and cash equivalents during the year	(21,325)	27,254	(2,547)
Effect of foreign exchange adjustment	(70)	551	464
Cash and cash equivalents, beginning of year	39,454	11,649	13,732
Cash and cash equivalents, end of year	$ 18,059	$ 39,454	$ 11,649
Cash and cash equivalents include			
Cash and term deposits	$ 18,059	$ 39,454	$ 15,349
Bank indebtedness, included in current indebtedness	—	—	(3,700)
	$ 18,059	$ 39,454	$ 11,649

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Tabular amounts expressed in thousands of U.S. dollars except per share amounts and number of shares

NOTE 1.
Summary of Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which, in the case of the Company, generally conform with those established in the United States, except as explained in Note 21.

The United States dollar is the principal currency of the Company's business and accordingly the consolidated financial statements are expressed in United States dollars.

Basis of consolidation

The accounts of all subsidiary companies have been included in the consolidated financial statements from their respective dates of acquisition of control or formation. All subsidiaries are wholly owned at December 31, 1996 except for a few companies with small minority interests. The Company's operating subsidiaries in the United States are held through Loewen Group International, Inc. ("LGII").

The Company accounts for its common share investment in companies in which it has significant influence by the equity method. The Company's proportionate share of income (loss) as reported, net of amortization of excess purchase price over net assets acquired, is included in income and added to (deducted from) the cost of the investment. Common share dividends received reduce the carrying amount of the investment.

Other long-term investments including preferred share investments are accounted for using the cost method.

The Company accounts for its investment in joint ventures using the proportionate consolidation method.

All significant inter-company balances and transactions have been eliminated in the consolidated financial statements.

Use of estimates

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. As a result, actual results could differ from those estimates.

Prearranged funeral services

Prearranged funeral services provide for future funeral services generally determined by prices prevailing at the time the contract is signed. The payments made under the contract are either placed in trust or are used to pay the premiums of life insurance policies under which the Company will be designated as beneficiary. Except for insurance commissions and amounts not required to be trusted which are used to defray initial costs of administration, no income is recognized until the performance of a specific funeral.

Trust fund principal amounts and insurance contract amounts, together with trust fund investment earnings retained in trust and annual insurance benefits, are deferred until the service is performed. The Company estimates that trust fund investment earnings and annual insurance benefits exceed the increase in cost over time of providing the related services. Upon performance of the specific funeral service, the Company will recognize the trust fund principal amount or insurance contract amount together with the accumulated trust earnings and annual insurance benefits as funeral revenues. Direct obtaining costs related to the sale of prearranged funeral services are included in other assets and amortized over a period of ten years, approximating the period the benefits are expected to be realized. Indirect obtaining costs relating to the sale of prearranged funeral services are expensed in the period incurred.

Cemetery operations

Pre-need sales of cemetery interment rights and other related products and services are recorded as revenue when customer contracts are signed with concurrent recognition of related costs. Allowances for customer cancellations and refunds are provided at the date of sale based on management's estimates of expected cancellations. Actual cancellation rates in the future may result in a change in estimate.

A portion of the proceeds from cemetery sales is generally required by law to be paid into perpetual or endowment care trust funds. Cemetery revenue is recorded net of the amount to be deposited to perpetual or endowment care trust funds. Earnings of perpetual or endowment care trust funds are used to defray the maintenance costs of cemeteries. Additionally, pursuant to state law, a portion of the proceeds from the sale of pre-need merchandise and services may also be required to be paid into trust funds which are recorded as long-term receivables.

Insurance Operations

(a) Insurance revenue

The Company earns insurance revenue through the sale of industrial life and ordinary life insurance policies.

(b) Insurance invested assets

Bonds and other fixed-term securities are carried at amortized cost. Net realized gains and losses are deferred and amortized to income over the remaining term to maturity of the security sold. Equity securities are carried at moving average market value. Net realized gains and losses on the disposal of equity securities are deferred and amortized to income on a declining balance basis.

(c) Insurance policy liabilities

Insurance policy liabilities represent an estimate of the amount which, together with future premiums and investment income, will be sufficient to pay future benefits, dividends and expenses on insurance and annuity contracts. Liabilities are computed using the policy premium method which involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields, future expense levels and rates of surrender. Consequently policy liabilities include reasonable provisions for adverse deviations from those estimates. These assumptions will be revised if it is determined that future experience differs substantially from that previously assumed.

Environmental contingencies and liabilities

The Company's operations are subject to numerous environmental laws, regulations and guidelines adopted by various governmental authorities in the jurisdictions in which the Company operates. Liabilities are recorded when environmental liabilities are either known or considered probable and can be reasonably estimated. The Company policies are designed to control environmental risk upon acquisition through extensive due diligence and corrective measures taken prior to acquisition and ongoing maintenance programs after acquisition.

Inventories

Inventories are valued at the lower of cost, determined primarily on a specific identification basis or a first in first out basis, and net realizable value.

Cemetery property

Cemetery property, including capitalized interest, consists of developed and undeveloped cemetery property and is valued at average cost, which is not in excess of market value. Amounts are expensed to costs and expenses as sales of cemetery plots occur.

Property and equipment

Property and equipment is recorded initially at cost and depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	10 to 40 years
Automobiles	6 years
Furniture, fixtures and equipment	6 to 10 years
Computer hardware and software	6 to 10 years
Leasehold improvement	over the term of the lease plus one renewal

Names and reputations

The amount paid for the names and reputations of operations acquired is equivalent to the excess of the purchase price over the fair value of identifiable net assets acquired, as determined by management. Amortization is provided on a straight-line basis over 40 years.

Covenants not to compete included with names and reputations on the consolidated balance sheet represent amounts prepaid under non-competition agreements with certain key management personnel of acquired operations. Amortization of such prepaid covenants not to compete is provided on a straight-line basis over the terms of the relevant agreements, typically ten years.

Impairment of Long-Lived Assets

The Company monitors the recoverability of long-lived assets, including names and reputations, based on factors such as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable.

Deferred finance costs

Deferred finance costs included in other assets on the consolidated balance sheet represent the costs of negotiating and securing the Company's long-term debt and preferred securities of subsidiary and are being amortized to earnings on a straight-line basis over the respective term of the related debt. These costs include legal fees, accounting fees, underwriting and agency fees and other related costs.

Acquisition costs

The Company's policy is to capitalize direct acquisition costs incurred on potential acquisitions. Upon completion of an acquisition, these costs are allocated to the assets acquired and are subject to the accounting policies outlined above. On certain acquisitions, a portion of the consideration is contingent upon future operating results. Such consideration, if any, is allocated to the assets acquired once determinable. Direct acquisition costs related to acquisitions not completed are written off.

Derivative instruments

The Company enters into derivative transactions with financial institutions only as hedges of other financial transactions and not for speculative purposes. The Company's policies do not allow leveraged transactions and are designed to minimize credit and concentration risk with counter-parties.

The Company enters into interest rate swap agreements to manage interest rate exposure on its long-term debt. The difference between the amounts paid and received is accrued and accounted for as an adjustment to interest expense over the life of the swap agreement.

The Company uses basic swap and option products to manage its exposure to interest rate movements when anticipated financing transactions are probable and the significant characteristics and expected terms are identified. Any gain or loss as a result of the hedging is deferred and amortized as an adjustment to interest expense over the life of the financing instrument hedged. If at any point in time, a hedging transaction no longer meets the criteria of a hedge, any gain or loss is recognized in current earnings.

The Company may also use foreign exchange forward contracts, options and futures to hedge the Company's exposure to fluctuations in foreign exchange rates. Gains or losses as a result of the hedge transaction are accounted for as an adjustment to the related transaction.

Share issue expenses

The costs of issuing shares, net of income tax recoveries thereon, are applied to reduce the stated value of such shares.

Deferred income taxes

The Company follows the allocation method for accounting for income taxes. Under this method recognition is given in the financial statements to the tax effects of timing differences between income for financial statement and income tax purposes. The differences arise primarily from provisions for legal settlements and related costs, intercompany charges, interest, depreciation, amortization, deferred finance costs, direct marketing costs, provision for bad debts and contract cancellations, operating loss carryforwards, cemetery sales and share issue costs.

Earnings per share

Basic earnings per share figures are calculated based on net earnings available to Common shareholders using the weighted average number of Common shares outstanding during the respective periods.

Fully diluted earnings per share figures assume exercise of options, convertible preference shares and Management Equity Investment Plan ("MEIP") options, if dilutive, effective on their dates of issue and that the funds derived therefrom would have been invested at an annual after tax rate of return of 6.55% (1995 – 6.19%, 1994 – 6.18%).

Foreign currency translation

The assets and liabilities of the Canadian operations, which are accounted for as self-sustaining, have been translated into United States dollars at the rates of exchange as at the balance sheet dates, and revenue and expenses are translated at the average rates of exchange for the periods of operation. Gains or losses arising from the translation are deferred and are classified as "Foreign exchange adjustment" within Shareholders' equity.

NOTE 2.
ACQUISITIONS

During the year ended December 31, 1996, the Company acquired 149 funeral homes, 135 cemeteries and two insurance companies in the United States, and ten funeral homes and one cemetery in Canada. Included in these acquisitions is the purchase of certain net assets of S.I. Acquisition Associates L.P. ("S.I.") of Donaldsonville, Louisiana, for approximately $155,800,000, including costs of acquisition. S.I. concurrently acquired all the outstanding shares of Ourso Investment Corporation. The S.I. assets include 15 funeral homes, two cemeteries and two insurance companies.

During the year ended December 31, 1995, the Company acquired 170 funeral homes and 61 cemeteries in the United States and seven funeral homes and three cemeteries in Canada.

All of the Company's acquisitions have been accounted for by the purchase method. The preliminary purchase price allocation for certain of these acquisitions has been estimated based on available information at the time and is subject to revision. The effect of acquisitions at dates of purchase on the Consolidated Balance Sheet is shown below. Included in the 1996 amounts is $11,794,000 representing the present value of total contingent payments of approximately $13,500,000 which the Company recorded in the third quarter of 1996 when the outcome of the contingency related to a 1995 acquisition became determinable.

	1996	1995
Current assets	$ 13,624	$ 16,538
Prearranged funeral services	49,098	62,250
Long-term receivables, net of allowances	90,882	83,951
Investments	1,837	9,500
Insurance invested assets	185,971	—
Cemetery property, at cost	255,239	254,115
Property and equipment	111,610	94,741
Names and reputations	154,297	118,531
Other assets	251	9,424
	862,809	649,050
Current liabilities	(19,364)	(15,832)
Long-term debt	(2,068)	(14,677)
Other liabilities	(53,995)	(60,378)
Insurance policy liabilities	(125,250)	—
Deferred income taxes	6,598	(7,965)
Deferred prearranged funeral services revenue	(49,098)	(62,250)
	$ 619,632	$ 487,948
Consideration		
Cash, including assumed debt repaid at closing	$ 556,921	$ 382,000
Debt	51,060	95,052
Common shares	11,651	10,896
Purchase Price	$ 619,632	$ 487,948

The following table reflects, on an unaudited pro-forma basis, the combined results of the Company's operations acquired during the period ended December 31, 1996 as if all such acquisitions had taken place at the beginning of the respective years presented. Appropriate adjustments have been made to reflect the accounting basis used in recording these acquisitions. This pro-forma information does not purport to be indicative of the results of operations that would have resulted had the acquisitions been in effect for the entire years presented, and is not intended to be a projection of future results or trends.

	1996	1995
Revenues	$ 992,412	$ 819,145
Net earnings (loss)	$ 58,552	$ (79,441)
Basic earnings (loss) per share	$ 0.86	$ (1.95)
Fully diluted earnings (loss) per share	$ 0.86	$ (1.95)

NOTE 3.
Prearranged Funeral Services

Included in the consolidated balance sheets at December 31, 1996, as prearranged funeral services is $334,420,000 (1995 – $245,854,000), representing amounts deposited in accordance with state trusting laws with various financial institutions and insurance companies, together with accrued earnings. The Company will receive the prearranged funeral trust amounts when the funeral services are performed.

Amounts held in Prearranged funeral trusts	1996	1995
Short-term investments	$ 98,615	$ 96,705
Fixed maturities	116,177	118,244
Balanced mutual funds	58,648	26,589
Equity securities	10,870	3,257
Insurance policies held by trust	45,228	—
Other	4,882	1,059
	$ 334,420	$ 245,854

As at December 31, 1996, total prearranged funeral trust assets were approximately equal to the market value. The weighted average rate of return on the above prearranged funeral trust assets for the year ended December 31, 1996 was 5.2% (1995 – 5.1%, 1994 – 4.7%).

NOTE 4. INVESTMENTS

	1996	1995
Arbor Memorial Services Inc. ("Arbor")		
713,825 Class A voting shares (1995 – 680,225) representing 28.3% (market value – $14,843,144 (1995 – $11,220,721))		
2,154,352 Class B non-voting shares (1995 – 2,057,752) representing 27.5% (market value – $43,618,319 (1995 – $33,189,548))	$ 39,517	$ 35,710
Prime Succession Holdings, Inc. ("Prime")		
213.2353 Common shares (1995 – nil) representing 21.8%	12,780	—
6,350 Preferred shares (1995 – nil) representing 100%	63,500	—
Rose Hills Holdings Corp. ("RH Holdings")		
204.5454 Common shares (1995 – nil) representing 20.45%	6,525	—
8,600 Preferred shares (1995 – nil) representing 100%	86,000	—
Investments of joint venture	37,187	34,258
Other	20,719	16,847
	$ 266,228	$ 86,815

(a) Arbor

The investment in Arbor, an operator of funeral homes and cemeteries in Canada, is accounted for by the equity method commencing January 1, 1995. As at October 31, 1996, Arbor had total assets and liabilities of $439,261,000 and $293,808,000 respectively (1995 – $287,617,000 and $188,837,000 respectively) and total revenues of $129,978,000 (1995 – $117,269,000). The Company's equity in the earnings of Arbor in 1996 was $1,879,000 (1995 – $1,391,000). Included in the Company's retained earnings are $2,888,000 (1995 – $1,199,000) of undistributed earnings of Arbor.

(b) Prime

On August 26, 1996, the Company acquired 235.2941 Common shares of Prime for $16,000,000, representing 23.5% of Prime's voting common stock, and 100% of Prime's non-voting preferred stock for $62,000,000. Blackstone Capital Partners II Merchant Banking Fund L.P. and certain affiliates (together, "Blackstone") acquired 764.7059 Common shares, representing 76.5% of Prime's voting common stock for $52,000,000. On February 14, 1997, the Company and Blackstone agreed to adjust their respective ownership of Prime's voting common stock retroactively to August 26, 1996. No adjustment to the aggregate purchase price was made. After giving effect to the readjustment, the Company has paid $14,500,000 for 213.2353 Common shares and Blackstone has paid $52,000,000 for 764.7059 Common shares representing 21.8% and 78.2% respectively of Prime's voting common shares. The Company has acquired 100% of Prime's non-voting preferred stock. A 10% cumulative annual payment-in-kind dividend is payable on the preferred stock.

Prime holds all of the outstanding common shares of Prime Succession, Inc., an operator of funeral homes and cemeteries in the United States. Prime Succession, Inc. was purchased on August 26, 1996 for approximately $320,000,000 of which $130,000,000 was funded by Blackstone and the Company, and $190,000,000 was financed through bank borrowings and the issuance of senior subordinated notes. The excess of the purchase price over the fair value of net assets of approximately $230,000,000, was established as goodwill in Prime Succession, Inc. and is being amortized over 40 years.

Blackstone and the Company have the right to designate five and three nominees, respectively, to the Prime Board of Directors. Blackstone controls the strategic operating, investing and financing policies of Prime. Neither Blackstone nor the Company can, without the consent of the other party, sell or transfer its shares in Prime to a party other than to an affiliate of itself.

The Company accounts for its investment in preferred shares of Prime by the cost method. For the period August 26, 1996 to December 31, 1996, income of $2,300,000 was recorded representing the cumulative annual payment-in-kind dividend.

The Company accounts for its investment in common shares of Prime by the equity method. Under this method, the Company records its proportionate share of the net earnings (loss) of Prime after deducting the payment-in-kind dividend. For the period August 26, 1996 to December 31, 1996, a loss of $1,144,000 was recorded representing the Company's proportionate share of the loss attributable to the common shares of Prime.

Under a Put/Call Agreement entered into with Blackstone, the Company has the option to acquire ("Call") Blackstone's common share interest in Prime commencing on the fourth anniversary of the acquisition, and for a period of two years thereafter, at a price determined pursuant to the Put/Call Agreement. Blackstone has the option to sell ("Put") its common share interest to the Company commencing on the sixth anniversary of the acquisition, and for a period of two years thereafter, at a price determined pursuant to the Put/Call Agreement.

The prices for the Call and the Put are based on a formula that calculates the equity value attributable to Blackstone's common share interest. The calculated equity value is determined at the Put or Call date based on a multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA"), after deduction of certain liabilities. The multiple to be applied to EBITDA is also determined through a formula which is based on future EBITDA. Any payment to Blackstone under the Call or the Put may be in the form of cash or Common shares of the Company, at the Company's option.

Upon a Call, Blackstone will receive, at a minimum, its original investment plus a 24.1% compound return per annum thereon regardless of the calculated equity value. Any additional equity value attributable to Blackstone common share interest is determined on the basis of a formula set forth in the Put/Call Agreement.

Upon a Put by Blackstone, there is no guaranteed return to Blackstone. Any payment to Blackstone is limited to Blackstone's share of the calculated equity value based on a formula set forth in the Put/Call Agreement.

Any payment to Blackstone is subject to Blackstone or the Company exercising their respective rights under the Put or the Call. It is not currently possible to determine whether Blackstone or the Company will exercise such rights. Furthermore, any amount to be paid pursuant to the Put is dependent on calculated equity value which is based on EBITDA of future periods. Accordingly, it is not possible at this date to estimate the future amount that may be payable to Blackstone on the exercise of the Put or the Call.

The Company provides various administrative services to Prime under an Administrative Services Agreement for an annual fee of $250,000.

Summarized financial data for Prime for the period August 26, 1996 to December 31, 1996, are presented as follows:

Income statement information:	
Revenue	$ 32,651
Gross margin	11,066
Earnings from operations	5,492
Payment-in-kind dividend	2,300
Net loss attributable to common shareholders	5,250
Balance sheet information:	
Current assets	$ 24,614
Non-current assets	374,174
Total assets	398,788
Current liabilities	22,531
Non-current liabilities	249,652
Total liabilities	272,183
Shareholders' equity	126,605

(c) RH Holdings

On November 19, 1996, the Company acquired 204.5454 Common shares of RH Holdings for $9,000,000, representing 20.45% of RH Holdings' voting common shares, and 100% of RH Holdings' non-voting preferred shares, with a cumulative annual payment-in-kind dividend of 10%, for $86,000,000. The Company's total investment of $95,000,000 consisted of $72,000,000 in cash and a contribution by the Company of 14 funeral homes and two combination funeral home and cemetery properties located in California valued at $23,000,000. Blackstone acquired 795.4546 Common shares, representing 79.55% of RH Holdings' voting common stock for $35,000,000.

RH Holdings holds all of the outstanding common shares of Rose Hills Company ("RHC") and the cemetery related assets of Rose Hills Memorial Park Association, representing the largest single location cemetery in the United States. These companies were purchased on November 19, 1996 for approximately $285,000,000 of which $130,000,000 was funded by Blackstone and the Company, and $155,000,000 was financed through bank borrowings and the issuance of senior subordinated notes. The excess of the purchase price over the fair value of net assets of approximately $130,000,000 was established as goodwill in RH Holdings and is being amortized over 40 years.

Blackstone and the Company have the right to designate five and three nominees, respectively, to the RH Holdings' Board of Directors. Blackstone controls the strategic operating, investing and financing policies of RH Holdings. Neither Blackstone nor the Company can, without the consent of the other party, sell or transfer its shares in RH Holdings to a party other than to an affiliate of itself.

The Company accounts for its investment in preferred shares of RH Holdings by the cost method. For the period November 19, 1996 to December 31, 1996, income of $932,000 was recorded representing the cumulative annual payment-in-kind dividend.

The Company accounts for its investment in common shares of RH Holdings by the equity method. Under the equity method, the Company records its proportionate share of the net earnings (loss) of RH Holdings after deducting the payment-in-kind dividend. For the period November 19, 1996 to December 31, 1996, a loss of $468,000 was recorded representing the Company's proportionate share of the loss attributable to the common shares of RH Holdings. The properties contributed by the Company had a net carrying value of $20,382,000. The Company has deferred a gain of $2,618,000 on the disposition of these properties and will recognize the gain if and when the properties are sold. The deferred gain is recorded in other liabilities on the consolidated balance sheet.

Under a Put/Call Agreement entered into with Blackstone, the Company has the option to Call Blackstone's common share interest in RH Holdings commencing on the fourth anniversary of the acquisition, and for a period of two years thereafter, at a price to be determined pursuant to the terms of the Put/Call Agreement. Blackstone has the option to Put its common share interest to the Company commencing on the sixth anniversary of the acquisition, and for a period of two years thereafter, at a price determined pursuant to the Put/Call Agreement.

The prices for the Call and Put are based on a formula that calculates the equity value attributable to Blackstone's common share interest. The calculated equity value will be determined at the Put or Call date based on a multiple of EBITDA, after deduction of certain liabilities. The multiple to be applied to EBITDA will also be determined through a formula which is based on future EBITDA. Any payment to Blackstone under the Call or the Put may be in the form of cash or the stock of the Company, subject to certain conditions, at the Company's option.

Upon a Call, Blackstone will receive, at a minimum, its original investment plus a 22.5% compound return per annum thereon regardless of the calculated equity value. Any additional equity attributable to Blackstone common share interest will be determined on the basis of a formula set forth in the Put/Call Agreement.

Upon a Put by Blackstone, there will be no guaranteed return to Blackstone. Any payment to Blackstone will be limited to Blackstone's share of the calculated equity value based on a formula set forth in the terms of the agreement.

Any payment to Blackstone will be subject to Blackstone or the Company exercising their respective rights under the Put or the Call. It is not currently possible to determine whether Blackstone or the Company will exercise such rights. Furthermore, any amount to be paid pursuant to the Put is dependent on calculated equity value which is based on EBITDA of future periods. Accordingly, it is not possible at this date to estimate the future amount that may be payable to Blackstone on the exercise of the Put or the Call.

The Company provides various management and administrative services to RHC and subsidiaries under an Administrative Services Agreement for an annual fee of $250,000. If the Administrative Services Agreement becomes terminable by Blackstone due to the Company's material breach thereof or other failure to comply in any material respect, Blackstone under the Put will receive, at a minimum, its original investment plus a 25% compound return per annum thereon which increases to 27.5% in the event of a change in control of the Company, regardless of the calculated equity value.

(d) Investments of joint venture

The Company is a party to a joint venture for investment purposes. The investment balance represents the Company's proportionate share of the joint venture's investment in credit card receivables. The Company's proportionate share of the joint venture's liabilities is $36,897,000 (1995 – $34,114,000), resulting in a net investment of $290,000 (1995 – $144,000).

NOTE 5.
INSURANCE INVESTED ASSETS

	December 31, 1996		December 31, 1995	
	Carrying value	Market value	Carrying value	Market value
Fixed maturities	$ 256,919	$ 257,250	$ 78,895	$ 81,266
Equity securities	2,376	2,343	4,737	5,342
Short-term investments and other	36,954	37,016	13,392	13,439
	$ 296,249	$ 296,609	$ 97,024	$ 100,047

The Company earned $16,883,000 of investment income on these assets at December 31, 1996 (1995 – $3,289,000) and $1,882,000 and $1,522,000 of unrealized gains and losses, respectively, on the carrying value of these investments at December 31, 1996 (1995 – $3,348,000 and $325,000 respectively).

Maturities of fixed maturity securities, excluding mortgage-backed securities and collateralized mortgage obligations, are estimated as follows: $3,750,000 due in one year or less (1995 – $5,000,000), $56,000,000 due in one to five years (1995 – $8,000,000), $47,958,000 due in five to ten years (1995 – $21,000,000), and $25,018,000 due after ten years (1995 – $13,000,000). Maturities on an amortized cost basis are approximately the same as the market value basis at December 31, 1996. The Company had approximately $124,193,000 in mortgage-backed securities and collateralized mortgage obligations at December 31, 1996 (1995 – $32,000,000).

NOTE 6.
LONG-TERM DEBT

	1996	1995
Bank revolving credit agreements	$ 270,489	$ 379,488
MEIP bank term loan agreement due 2000	107,583	116,007
Canadian bank term loan agreement due 2000 (Cdn.$ 35,000,000)	25,536	25,659
9.70% Series A and C senior amortizing notes due in 1998	62,500	93,750
9.93% Series B senior amortizing notes due in 2001	35,700	42,850
9.62% Series D senior amortizing notes due in 2003	60,000	60,000
6.49% Series E senior amortizing notes due in 2004	50,000	50,000
7.50% Series 1 senior notes due in 2001	225,000	—
7.75% Series 3 senior notes due in 2001	125,000	—
8.25% Series 2 and 4 senior notes due in 2003	350,000	—
Present value of notes issued under legal settlements discounted at an effective interest rate of 7.75%	40,000	40,000
Present value of contingent consideration payable on acquisitions discounted at an effective interest rate of 8.0%, see Note 19	34,681	35,260
Other, principally arising from vendor financing of acquired operations or long-term debt assumed on acquisitions, bearing interest at fixed and floating rates varying from 4.8% to 14.0%, certain of which are secured by assets of certain subsidiaries	121,732	91,495
	1,508,221	934,509
Less current portion	79,580	69,671
	$ 1,428,641	$ 864,838

NOTE 8.
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's policy is not to use derivative instruments for speculation. The Company does not trade in financial instruments and is not a party to leveraged derivatives.

(a) Swap agreements and interest rate options
The Company has entered into swap agreements and interest rate options with a number of different commercial banks and financial institutions to manage its interest rate exposure on fixed rate long-term debt. At December 31, 1996, such agreements included:
(1) An interest rate swap agreement with a commercial bank, having a notional principal amount of $50,000,000 in which the Company will pay a floating Libor based rate determined semi-annually (5.6875% at December 31, 1996) and receive a fixed rate of 5.725%. The Company has entered into an offsetting interest rate swap agreement with the same commercial bank, having a notional principal amount of $50,000,000 in which the Company will receive a floating Libor based rate determined on the same day as the original interest rate swap agreement and pay a fixed rate of 5.810%. After offsetting, the Company will pay a fixed rate of 0.085% under the agreement. The agreement expires in August 1997.
(2) Three interest rate swap agreements with commercial banks and financial institutions, each having a notional principal amount of $25,000,000. The Company will receive floating Libor based rates determined quarterly (5.500% at December 31, 1996) and will pay fixed rates of 5.755%, 6.200% and 6.190% under the agreements. The agreements expire in June 1999, June 2001 and June 2001, respectively.
(3) An interest rate swap agreement with a commercial bank, having a notional principal amount of Cdn.$15,000,000. The Company will receive floating Bankers Acceptance based rates determined quarterly (3.17% at December 31, 1996) and will pay a fixed rate of 7.430% under the agreement. The agreement expires in September 1997.

The Company is exposed to credit losses in the event of non-performance by the other parties to the interest rate swap agreements. However, the Company does not anticipate non-performance by the counterparties.

(b) Fair value of financial instruments
The carrying amount of cash and cash equivalents, receivables, current indebtedness, accrued settlements and accounts payable and accrued liabilities approximates fair value due to the short-term maturities of these instruments. The fair value of insurance liabilities and the Put/Call Agreements have been omitted because it is not practicable to determine fair value with sufficient reliability. For further information about these items see Notes 5 and 4 respectively. Financial instruments with a carrying value different from their fair value include:

	December 31, 1996		December 31, 1995	
	Carrying value	Fair value	Carrying value	Fair value
(1) Financial assets				
Prearranged funeral services	$ 334,420	$ 334,420	$ 245,854	$ 245,854
Investments				
Practicable to estimate fair value	53,403	54,080	47,743	49,549
Not practicable	152,453	—	2,053	—
Insurance invested assets	296,249	296,609	97,024	100,047
Long-term receivables				
Practicable to estimate fair value	123,425	125,289	84,143	86,701
Not practicable	165,154	—	83,224	—
(2) Financial liabilities				
Liabilities of joint venture	$ 36,897	$ 37,399	$ 34,114	$ 35,279
Long-term debt	1,508,221	1,535,764	934,509	958,293
Preferred securities of subsidiary	75,000	79,500	75,000	70,125
(3) Derivative instruments (net receivable/(payable))				
Swap agreements	$ 41	$ (112)	$ 11	$ (1,627)
Futures contracts	—	—	(1,533)	(1,567)

The fair value of insurance invested assets and certain investments and long-term receivables are determined based on quoted market prices. For certain long-term receivables and other investments, fair value is estimated by discounting the future cash flows, including interest payments, using rates currently available for investments of similar terms and maturity. The investments for which is not practicable to estimate fair value comprise primarily the preferred share investments in Prime and RH Holdings. The long-term receivables for which it is not practicable to estimate fair value comprise primarily installment receivables on cemetery sales, which generally have terms of three to five years and bear interest ranging from 8% to 15%.

The fair value of liabilities of a joint venture and long-term debt subject to fixed interest rates is estimated by discounting the future cash flows, including interest payments, using rates currently available for debt of similar terms and maturity, based on the Company's credit standing and other market factors. The fair value of long-term debt subject to floating market rates approximates its carrying value. The fair value of the preferred securities of a subsidiary is estimated based upon quoted market prices.

The fair value of the swap agreements is the estimated amount the counterparty would receive or pay to hypothetically terminate or exchange the agreements based on market factors. The fair value of futures contracts are estimated based on quoted market prices and represents the cost to close out the position.

NOTE 9.
SHARE CAPITAL

(a) Authorized

200,000,000	(1995 – 3,000,000)	First Preferred shares without par value
40,000,000	(1995 – 40,000,000)	Class A shares without par value
750,000,000	(1995 – 500,000,000)	Common shares without par value

On May 16, 1996, the authorized capital of the Company was increased to 750,000,000 Common shares without par value, 40,000,000 Class A shares without par value and 200,000,000 First Preferred shares without par value of which 1,000,000 shares are designated as 7.75% Cumulative Redeemable Convertible First Preferred Shares, Series A, 425,000 shares are designated as Convertible First Preferred Shares, Series B, see Note 9(e), and 8,800,000 shares are designated as 6.00% Cumulative Redeemable Convertible First Preferred Shares, Series C, see Note 9(d).

NOTE 9. SHARE CAPITAL (continued)

(b) Issued and outstanding

	Number of Shares	Stated Value
Common shares and contributed surplus		
Outstanding December 31, 1993	38,647,080	$ 227,968
Issued for cash by public offering, net of expenses of $1,442,000	2,000,000	46,899
Issued for cash on exercise of stock options, including related tax benefits	194,821	3,996
Issued for cash under stock purchase plan	84,445	1,545
Issued for acquisitions	84,701	2,087
Issued under employee stock bonus plan	4,400	65
Outstanding December 31, 1994	41,015,447	282,560
Issued for cash by public offering, net of expenses of $5,491,000	6,325,000	187,421
Issued for cash on exercise of stock options, including related tax benefits	415,010	6,725
Issued for cash under stock purchase plan	93,475	2,334
Issued for acquisitions, see Note 2	312,758	10,896
Issued under employee stock bonus plan	6,075	119
Outstanding December 31, 1995	48,167,765	490,055
Issued for cash by public offering, net of expenses of $5,558,000	7,700,000	216,576
Issued for legal settlements	2,500,000	72,000
Issued for cash on exercise of stock options, including related tax benefits	315,583	5,214
Issued for cash under stock purchase plan	20,850	708
Issued for acquisitions, see Note 2	340,537	11,651
Issued under employee stock bonus plan	12,280	227
Outstanding December 31, 1996	59,057,015	$ 796,431
Preferred shares		
Issued for cash by public offering, net of expenses of $3,776,000	8,800,000	$ 157,146

(c) Common shares issued under legal settlements

As part of the settlement agreement of February 1, 1996, with Gulf National Insurance Company and certain of its affiliates ("Gulf National"), the Company issued 1,500,000 Common shares. In addition, as part of the settlement with Provident American Corporation and a subsidiary ("Provident"), the Company issued 1,000,000 Common shares of the Company. The shares were valued based on the guaranteed price under the settlement agreements, see Note 11.

(d) First Preferred shares

First Preferred shares may be issued from time to time in one or more series and in such numbers and with such special rights and restrictions as the directors of the Company determine.

During 1994, as part of the Management Equity Investment Plan, 425,000 shares were designated as Convertible First Preferred shares, Series B of the Company. Each Convertible First Preferred share is convertible into ten Common shares at any time prior to July 13, 2011. No Series B Preferred shares have been issued.

In January 1996, the Company completed a public offering in Canada and a simultaneous private placement in the United States of 8,800,000 Convertible First Preferred Shares Series C Receipts for gross proceeds of Cdn.$220,000,000 (U.S.$161,000,000). The gross proceeds were deposited with an escrow agent and were subsequently exchanged for 8,800,000 Series C Preferred shares, and all of the net proceeds were released to the Company. A holder of Series C Preferred shares will have the right at any time before January 1, 2003, to convert each Series C Preferred share into that number of Common shares determined by dividing Cdn.$25.00 by Cdn.$38.125. Thereafter, a holder of Series C Preferred shares will have the right on January 1, 2003, and on the first business day of each quarter thereafter, to convert all or part of such Series C Preferred shares into that number of Common shares determined by dividing Cdn.$25.00 plus accrued and unpaid dividends by the greater of Cdn.$3.00 and 95% of the Current Market Price (as defined) on the date of conversion.

The holders of the Series C Preferred shares are entitled, as and when declared by the Board of Directors, to a fixed preferential cumulative cash dividend of 6% per year, payable quarterly.

The Series C Preferred Shares will not be redeemable by the Company prior to July 1, 1999.

On or after July 1, 1999, the Series C Preferred shares will be redeemable by the Company, upon giving not less than 30 days notice, at a redemption price equal to Cdn.$25.00 per share together with accrued and unpaid dividends. Prior to July 1, 2001, the redemption will only be effected by the issuance of Common shares, determined by dividing the redemption price by the greater of Cdn.$3.00 and 95% of the Current Market Price at the date of redemption. On and after July 1, 2001, the redemption may be effected by the issuance of Common shares or payment of a cash amount.

In the event of the liquidation, dissolution or winding up of the Company or other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of the Series C Preferred shares shall be entitled to receive the redemption price before any amounts are paid to the holders of Common shares or any other class of shares ranking junior to the Series C Preferred shares.

(e) Management Equity Investment Plan ("MEIP")

4,250,000 Common shares of the Company were reserved upon adoption by the Company of the MEIP on June 15, 1994. Senior Exchangeable Debentures amounting to $127,670,000 were issued by LGII to a wholly-owned subsidiary of LGII formed to act as agent for the MEIP. The Debentures are due July 15, 2001 and bear interest at floating rates. Each $300.40 of principal amount of Debentures will be exchangeable for one Convertible First Preferred share, Series B of the Company, each of which will be convertible into ten Common shares of the Company. As part of the MEIP, the present participants paid $3,409,240 (1995 – $3,827,023) for option rights to acquire $68,184,792 (1995 – $77,052,600) of Debentures exercisable as to 50% in 1999, 25% in 2000 and 25% in 2001, of which $751,000 was paid by the Chairman of the Company. If an option expires unexercised, the participant will receive a refund without interest of the amount paid to acquire such option right. In addition, the Chairman paid $2,253,000 for the right and obligation to acquire $45,060,000 of Debentures with the same exercise dates.

(f) Shareholder protection rights plan

On April 20, 1990, the Board of Directors of the Company approved a Shareholder Protection Rights Plan (the "Plan"), which was confirmed by the shareholders in accordance with the provisions of the Plan at the Annual General Meeting on May 24, 1990. The Plan was amended on June 18, 1991 to adjust the Exercise Price consequent upon the two-for-one stock split of the Company. The Plan was also amended on April 7, 1994 to further adjust the Exercise Price and to amend the definition of "Inherited Acquisitions." The Plan was reconfirmed by the shareholders at the Annual General Meeting on May 17, 1995 for a further five-year period expiring April 20, 2000.

The Plan is meant to discourage unfair take-over bid tactics and to give the Board of Directors time, if there is an unsolicited bid, to pursue alternatives to maximize shareholder value. To preserve the shareholders' right to consider take-over bids on a fully-informed basis, the Plan provides that a bidder's position may be substantially diluted if it does not make either a "permitted bid" directly to all shareholders or negotiate with the Board for a waiver of the Plan's provisions.

Under the Plan, each Common shareholder is entitled to receive one right in certain situations. The rights however will not trade separately from the Common shares unless a take-over bid is announced or someone, excluding "Grandfathered Persons," acquires 20% of the Common shares. To the Company's knowledge, only Raymond L. Loewen and Anne Loewen are Grandfathered Persons.

The rights issued to Common shareholders under the Plan entitle the holder, upon the occurrence of certain triggering events, to acquire Common shares in the Company at a 50% discount to the market. Triggering events include the acquisition of 20% or more of the Common shares in a transaction not approved by the Board of Directors. However, the rights are not triggered by certain permitted bids that are made to all holders of Common shares and that are approved by a majority vote of independent shareholders.

By creating the potential for substantial dilution of an unfair bidder's position, the Plan encourages an acquirer to proceed by way of a permitted bid or to approach the Board with a view to negotiation. The Plan's permitted bid provision allows bidders to take bids directly to all the shareholders. The Plan thus preserves the shareholder's right to consider such bids on a fully-informed basis. The Company, at the time of the adoption of the Plan, was not aware of any pending or threatened take-over bid for the Company. The Company is not presently aware of any pending or threatened take-over bid for the Company. On January 7, 1997, Service Corporation International ("SCI") withdrew its unsolicited hostile takeover proposal, see Note 14.

There are exceptions to the Plan to permit the acquisition of shares by (i) persons who held more than 20% of the Common shares on April 20, 1990, subject to certain restrictions, and (ii) registered pension plans whose governing legislation prohibits them from holding more than 30% and who are acquiring the Common shares independently for investment.

(g) Stock Option Plans

The Company has separate fixed stock option plans for its United States and Canadian employees which enable the Company to grant options to its employees and directors. The option plans are administered by the Compensation Committee of the Company's Board of Directors. Each participant enters into an option agreement which sets forth, among other things, the number of options granted, the exercise price and the vesting conditions of the options. The exercise price of an option may not be less than the market price of the Company's stock on the trading day immediately prior to the grant date and in no event may an option terminate later than ten years after the grant date of such option.

A summary status of the Company's fixed stock option plans and changes during the two years ended December 31, 1996, are as follows:

	1996		1995	
Stock options	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding beginning of year	2,861,664	$ 21	2,402,562	$ 16
Options granted	2,001,586	28	947,399	30
Options exercised	(315,583)	13	(415,010)	10
Options cancelled	(130,150)	25	(73,287)	20
Outstanding end of year	4,417,517	$ 25	2,861,664	$ 21
Options exercisable at end of year	1,618,262		982,245	

The following table summarizes information about the Company's fixed stock options outstanding at December 31, 1996:

Options outstanding	Number outstanding at December 31, 1996	Weighted average remaining contractual life	Weighted average exercise price
Range of exercise prices			
$ 9.70 – $ 20.00	809,630	6.5	$ 13
20.01 – 30.00	3,298,070	8.6	27
30.01 – 40.00	290,857	8.7	35
40.01 – 45.00	18,960	9.3	41
	4,417,517	8.2	$ 25

Options exercisable	Number outstanding at December 31, 1996	Weighted average exercise price
Range of exercise prices		
$ 9.70 – $ 20.00	626,408	$ 13
20.01 – 30.00	938,676	25
30.01 – 40.00	50,796	35
40.01 – 45.00	2,382	41
	1,618,262	$ 21

NOTE 10. FOREIGN EXCHANGE ADJUSTMENT

The foreign exchange adjustment account represents the net changes due to exchange rate fluctuations in the equivalent United States dollar book values of the Company's net investments in self-sustaining non-United States operations since their respective dates of acquisition.

NOTE 11. LEGAL PROCEEDINGS

Gulf National Settlement

On February 1, 1996, the Company and Gulf National executed a settlement agreement pursuant to which, among other things, the parties agreed to a full and mutual release of all claims against each other. The Company delivered to Gulf National $50,000,000 in cash, 1,500,000 Common shares ("Gulf National Settlement Shares") and a promissory note in the amount of $80,000,000 payable over 20 years in equal installments of $4,000,000, without interest. The Gulf National Settlement Shares were issued in February 1996 and a registration statement registering the resale of the Gulf National Settlement Shares filed with the Securities and Exchange Commission ("SEC") was declared effective in December 1996.

The Company recorded a charge against its 1995 earnings in the amount of $135,000,000 before taxes of $49,530,000 to account for the Gulf National settlement. This amount represents the cash portion, the present value of the non-interest bearing promissory note and the guaranteed value of the Gulf National Settlement Shares.

Provident Settlement

On February 4, 1996, Provident and the Company settled certain litigation and on March 19, 1996, the parties entered into a settlement providing for a full mutual release from all claims against each other, and the Company delivered 1,000,000 Common shares ("Provident Settlement Shares") and $3,000,000 in cash to Provident and certain designees. The Company filed a registration statement registering the resale of the Provident Settlement Shares with the SEC, which was declared effective in July 1996.

The Company recorded a charge against its 1995 earnings in the amount of $30,000,000 before taxes of $10,800,000 to account for the Provident settlement.

Class Actions Alleging Securities Laws Violations

On November 4, 1995, a class action lawsuit claiming violations of federal securities laws was filed on behalf of a class of purchasers of Company securities against the Company and five individuals who were officers of the Company (four of whom were also directors) in the United States District Court for the Eastern District of Pennsylvania. LGII, LGC and the lead underwriters (the "Underwriters") of LGC's 1994 offering of Monthly Income Preferred Securities ("MIPS"), were subsequently added as defendants. On November 7, 1995, a class action lawsuit was filed on behalf of a class of purchasers of Common shares against the Company and the same individual defendants in the United States District Court for the Southern District of Mississippi alleging Federal securities law violations and related common law claims. On December 1, 1995, a class action lawsuit was filed on behalf of a class of purchasers of the Company's securities against the Company, LGII, LGC and the same individual defendants in the United States District Court for the Eastern District of Pennsylvania.

The complaints with respect to the class actions alleged that the defendants failed to disclose the Company's anticipated liability in connection with certain litigation with Gulf National. The Pennsylvania class actions also alleged failure to disclose the Company's potential liability in connection with certain litigation with Provident. The Company settled the lawsuits with Gulf National and Provident during the first quarter of 1996.

Pursuant to a Transfer Order filed April 15, 1996 by the Judicial Panel on Multidistrict Litigation, the Mississippi class action was transferred to the Eastern District of Pennsylvania for consolidation of pretrial proceedings with the two Pennsylvania class actions. On September 16, 1996, the plaintiffs filed a Consolidated and Amended Class Action Complaint (the "Consolidated Class Action Complaint"). Procedurally, the Consolidated Class Action Complaint supersedes the complaints filed in the class actions. Plaintiffs allege three causes of action in the Consolidated Class Action Complaint: (i) the Company, LGII, LGC and the five individual defendants violated Sections 10(b) and 20(a) and the implementing anti-fraud rules under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), (ii) LGII, LGC and three of the five individual defendants violated Sections 11 and 15 of the Securities Act of 1933, as amended (the "Securities Act"), in connection with the MIPS offering and (iii) the Company, LGII and LGC made material misstatements in connection with the MIPS offering in violation of Sections 12(2) and 15 of the Securities Act. Plaintiffs seek compensatory money damages in an unspecified amount, together with attorneys fees, expert fees and other costs and disbursements. Punitive damages are not sought.

The defendants filed their Answer to the Consolidated Class Action Complaint on November 1, 1996, in which they have denied the material allegations and raised certain affirmative defenses. The parties have commenced discovery and document production. No depositions have been taken.

The parties have stipulated to the provisional certification of plaintiff classes consisting of: (i) all purchasers of Common shares or MIPS on an American stock exchange or in public offerings during the period from April 16, 1993 through November 1, 1995, with respect to the Exchange Act claims; and (ii) all persons who purchased MIPS pursuant to the public offering in August 1994, with respect to the Securities Act claims. Defendants have retained all rights to conduct discovery on class issues and to move to modify the class definitions or to decertify the classes. Plaintiffs have agreed to stay all proceedings, including all discovery, relating to disclosures about the Provident litigation. Plaintiffs have the right to lift the stay upon written notice, which must be provided 90 days before the end of discovery or the beginning of trial.

On June 11, 1996, all claims against the Underwriters were dismissed without prejudice, by agreement of the parties. Prior to the dismissal, the Underwriters had indicated to the Company that they would seek indemnity from the Company for costs incurred. The Company paid the Underwriters' costs through the date of dismissal. The Company expects that the Underwriters will seek further indemnity from the Company if any of the claims against the Underwriters are reinstated.

The Company referred the claims to its insurance carrier under its directors and officers liability insurance policy. On February 9, 1996, the carrier denied coverage of the claim. The Company believes that such denial was improper. On March 21, 1996, the Company commenced an action in British Columbia Supreme Court seeking a declaration that the policy covers indemnification with respect to the Class Action. As of the date hereof, the Supreme Court has not ruled on the action. The Company cannot predict at this time the extent to which any settlement or litigation that may result from these claims will ultimately be covered by insurance, if at all.

The Company has determined that it is not possible at this time to predict the final outcome of these legal proceedings and that it is not possible to establish a reasonable estimate of possible damages, if any, or reasonably to estimate the range of possible damages that may be awarded to the plaintiffs. Accordingly, no provision with respect to the class actions has been made in the Company's 1996 consolidated financial statements.

Roe et al., Palladino et al., O'Sullivan and Schneider
In October 1995, Roe and 22 other families filed a lawsuit against LGII and Osiris Holding Corporation ("Osiris") in Florida Circuit Court in St. Petersburg. In early April 1996, a related lawsuit, Palladino et al., was filed by eight families against LGII and Osiris in Florida Circuit Court in St. Petersburg, and was assigned to the same judge handling the Roe matter. In June 1996, the Roe and Palladino lawsuits were consolidated and amended to include a total of 90 families, and in July 1996, the Palladino lawsuit was dismissed. In October 1996, a Fifth Amended Complaint ("Complaint") was filed bringing the number of plaintiff families to 150. The gravamen of the Complaint is that, in July 1992, employees of the Royal Palm Cemetery facility who were installing a sprinkler line disturbed the remains of infants in one section of the cemetery. The specific claims include tortious interference with a dead body (intentional and grossly negligent conduct so extreme and outrageous as to imply malice) and negligent infliction of emotional distress. The Complaint also names the Company and LGII as defendants (on an alter ego theory) and includes claims for negligent retention of certain cemetery employees. Each plaintiff identified in the Complaint is seeking damages in excess of $15,000, but the Complaint alleges aggregate damage in excess of $40,000,000. In addition, in May 1996, Sean M. O'Sullivan filed a lawsuit against Osiris and LGII and in July 1996, Karen Schneider filed a lawsuit against Osiris and LGII. The factual allegations underlying the O'Sullivan and Schneider complaints are identical to those alleged in the Complaint. Schneider has been named in the Complaint and the Schneider lawsuit has been dismissed. A mediation was held on November 14, 1996, but the parties did not reach an agreement. However, over the past several months, nearly 100 families have settled their claims for de minimus sums, leaving the number of plaintiff families at 51. The Complaint was dismissed for pleading deficiencies. The plaintiffs have indicated that they will file a Sixth Amended Complaint.

At the time the remains allegedly were disturbed, the Royal Palm Cemetery was owned by Osiris. Osiris was acquired by the Company in March 1995. The insurance carriers for Osiris and the Company have assumed the defense of these claims, subject to a reservation of rights. The insurance carrier for the Company has stated that it may take the position that each gravesite claim is separately subject to the per claim policy deductible of $250,000. Accordingly, no assurance can be made that insurance coverage will be available. The annual Osiris policy limit is $11,000,000, and the annual Company policy limit is $80,000,000.

The Company has determined that it is not possible at this time to predict the final outcome of these legal proceedings and that it is not possible to establish a reasonable estimate of possible damages, if any, or reasonably to estimate the range of possible damages that may be awarded to the plaintiffs. Accordingly, no provision with respect to this lawsuit has been made in the Company's 1996 consolidated financial statements.

Esner Estate
On February 1, 1995, Stuart B. Esner and Sandra Esner (the "Executors") as co-executor for the Estate of Gerald F. Esner (the "Esner Estate") filed an action in the Court of Common Pleas in Bucks County, Pennsylvania against Osiris and a law firm (the "Law Firm") that previously represented Osiris and its principal shareholders, Gerald F. Esner, Lawrence Miller and William R. Shane. Messrs. Miller and Shane currently are executive officers of the Company and LGII.

The complaint alleged that Osiris breached the terms of a Second Amended and Restated Shareholders' Agreement among Messrs. Esner, Miller and Shane (the "Shareholders' Agreement") by attempting to repurchase shares of Osiris held by the Esner Estate (the "Esner Shares") without complying with the terms of the Shareholders' Agreement, and that the Law Firm breached its fiduciary duty and committed malpractice in connection with the drafting of the Shareholders' Agreement and its representation of Esner and Osiris. The Executors asked the Court (i) to have the value of Osiris reappraised pursuant to the terms of the Shareholders' Agreement and (ii) to require Osiris to repurchase the Esner Shares pursuant to a new appraisal and the alleged terms of the Shareholders' Agreement or, alternatively, to pay the Esner Estate the fair value of the Esner Shares as determined by the new appraisal.

NOTE 11. LEGAL PROCEEDINGS (continued)

In March 1995, LGII purchased all of the issued and outstanding shares of Osiris, including the Esner Shares. In connection with the purchase, LGII entered into an indemnification agreement whereby Messrs. Miller and Shane agreed to indemnify and hold LGII harmless with respect to any claims, liabilities, losses and expenses, including reasonable attorney's fees, in connection with or arising from the Esner Estate litigation.

On April 9, 1996, the Executors filed a second complaint, which names Messrs. Miller and Shane and LGII as defendants. The second complaint alleges breach of contract, fraud and related claims against Messrs. Miller and Shane, and that LGII joined a civil conspiracy by acquiring Osiris. The Executors request compensatory damages of $24,300,000 against the various defendants, and seek punitive damages from Messrs. Miller and Shane. The two cases were consolidated by the Court.

On October 9, 1996, the Executors instituted a new civil action against the Law Firm. On November 18, 1996 the Executors instituted a new civil action against the individual partners of the Law Firm. In both complaints, the Executors expanded upon the allegations against the Law Firm contained in the previous complaints. By stipulation approved by the Court on February 24, 1997, the parties agreed to consolidate all suits and to permit the Executors to file a Third Amended Complaint, which was filed on February 10, 1997. The prayers for relief remain unchanged. Osiris and Messrs. Miller and Shane have filed preliminary challenges to the Third Amended Complaint. Likewise, LGII has moved for a dismissal of the claims against it for failure to state a claim upon which relief can be granted. That motion and the preliminary challenges are all pending.

The Company has determined that it is not possible at this time to predict the final outcome of these legal proceedings and that it is not possible to establish a reasonable estimate of possible damages, if any, or reasonably to estimate the range of possible damages that may be awarded to the plaintiffs. Accordingly, no provision with respect to this lawsuit has been made in the Company's 1996 consolidated financial statements.

Service Corporation International

On October 2, 1996, Service Corporation International ("SCI") filed an action in the United States District Court for the Southern District of Texas (the "Texas Action"), alleging that Loewen falsely suggested to its shareholders that it has standing to bring an action to block or impede SCI's unsolicited exchange offer on federal antitrust grounds. SCI also seeks a declaratory judgment that the Company lacks standing to bring such an action on federal antitrust grounds. SCI asserts a claim under Texas common law, based upon its allegations that the Company's actions have tortiously interfered with SCI's "prospective business relationships" with the Company's shareholders. As relief for this assertion, SCI seeks an unspecified amount of damages for claimed injuries resulting from the Company's alleged interference with these prospective relationships. In an amended complaint filed October 3, 1996, SCI also alleges that the foregoing actions, as well as the Company's alleged failure to disclose certain information respecting the Prime and Rose Hills transactions, constitute violations of Section 14(e) of the Exchange Act. As relief, SCI seeks an injunction against future violations of that statute.

On October 10, 1996, the Company, LGII and Ridge Chapels, Inc., a subsidiary of LGII, commenced an action in the United States District Court for the Eastern District of New York (the "New York Action"), seeking to enjoin SCI preliminarily and permanently from completing its unsolicited exchange offer on the grounds that a combination of SCI and the Company would violate Section 7 of the Clayton Act. According to the complaint, SCI's unsolicited offer for control of the Company, if successful, may substantially lessen competition in numerous local markets for (i) the sale of funeral services, (ii) the sale of funeral services on a "pre-need" basis, (iii) the sale of cemetery services, and (iv) the purchase of funeral homes, cemeteries and crematoria. The Company also accuses SCI and Equity Corporation International, Inc. (a competitor of the Company in which SCI had a 40% interest in October 1996) ("ECI"), of conspiracy to eliminate the Company as a competitive force in the funeral services industry, in violation of Section 1 of the Sherman Act. On October 10, 1996, the Company filed Motions for Expedited Discovery and for a Preliminary Injunction to enjoin the unsolicited exchange offer and, on October 15, 1996, filed a Verified First Amended Complaint.

On October 11, 1996, the Company moved to dismiss or stay the Texas Action. On October 15, 1996, SCI moved to dismiss, stay or transfer the New York Action. A hearing was held on SCI's motion on October 17, 1996, at the conclusion of which the District Court denied SCI's motion. On October 23, 1996, Magistrate Judge Caden of the District Court entered a Memorandum and Order allowing expedited discovery with respect to the Company's motion for a preliminary injunction. On October 29, 1996, the District Court overruled the objections of SCI to the Magistrate Judge's Order but stayed commencement of discovery proceedings, which stay was extended by stipulation until the resolution of the pending motions in the Texas Actions described below.

On October 21, 1996, SCI filed a Motion for Preliminary Injunction in the Texas Action, seeking to enjoin the Company from pursuing its antitrust claims in any forum other than the federal District Court in Texas. The matter was referred to Magistrate Judge Johnson, who issued a Memorandum Recommending Entry of a Preliminary Injunction on October 28, 1996. Magistrate Judge Johnson recommended that the District Court restrain the Company from proceeding in the New York Action (or elsewhere) until it had resolved the Company's pending motion to dismiss. In a telephone conference on October 28, 1996, the District Court declined to enter any injunctive relief at that time. A hearing on the Company's motion to dismiss was held on November 6, 1996. On November 23, 1996, the Texas District Court issued a Memorandum Opinion in which it: (i) denied SCI's motion for a preliminary injunction against the New York Action; and (ii) granted the Company's motion to dismiss the Texas Action, subject to the New York Court's permitting SCI to raise its above-described tortious interference and violation of §14(e) claims as counterclaims in the New York Action. SCI's above-described declaratory judgment claim was dismissed outright.

On December 11, 1996, SCI filed its Answer to the Company's Verified First Amended Complaint, in which it denies liability and asserts various defenses and asserts counterclaims against the Company, which counterclaims parallel generally the above-described claims for tortious interference and violation of §14(e) claims asserted in the Texas Action. The Company believes that the counterclaims are without merit and intends to contest them vigorously. The Company has served discovery requests upon SCI and ECI to which both objected. On December 11, 1996, Magistrate Judge Caden ordered expedited discovery to proceed. SCI filed objections to the Magistrate Judge's order, which objections were denied by the District Court on January 7, 1997.

On December 11, 1996, ECI filed a Motion to Dismiss the claims against it, on grounds of improper venue and lack of personal jurisdiction. On December 18, 1996, the Company filed a Motion for Expedited Discovery respecting jurisdiction over ECI, and the parties agreed that the Company would not be required to respond to the Motion to Dismiss until either a date certain after denial of its Motion for Expedited Discovery or, if that Motion were granted, completion of jurisdictional discovery. On January 8, 1997, Magistrate Judge Caden entered an order providing that the Company could take certain expedited discovery respecting jurisdiction over ECI.

On January 7, 1997, SCI announced that it had withdrawn its proposed exchange offer. On January 14, 1997, the Company sent a letter to the New York Court stating that it will move for leave to file an amended complaint seeking permanent injunctive relief against future actions by SCI and/or ECI against the Company in violation of the antitrust laws. On January 15, 1997, SCI sent a letter to the New York Court stating that it believes the Company's claims are moot and will seek dismissal of those claims. Discovery from the parties has been temporarily suspended by agreement. On January 16, 1997, ECI sent a letter to the New York Court, seeking to suspend discovery until the Court rules on the contemplated motions by the Company and SCI. On January 20, 1997, the Company sent a letter to the Court seeking leave to move to dismiss SCI's counterclaims, to which SCI responded on January 22, 1997, by letter requesting dismissal of the entire action.

At the New York Court's suggestion, the parties are discussing possible resolution of the action in a manner that would end the current proceedings but preserve jurisdiction in the New York Court over similar disputes in the future, if any.

No provision with respect to these legal proceedings has been made to date in the Company's 1996 consolidated financial statements.

Derivative Suit

On September 26, 1996, Jerry Krim filed a purported derivative and class action against the Company's current directors and one former director and against the Company as a nominal defendant in the Los Angeles County Superior Court. The plaintiff alleges, on behalf of himself and all of the Company's current and former shareholders, that the defendants "improperly responded to an offer by SCI to combine the two companies," refused to negotiate with SCI, agreed to pay an inflated price for the Rose Hills properties in Los Angeles, adopted a supposed "poison pill" supermajority voting provision requiring 75% approval of a merger, and adopted a Shareholders Protection Rights Plan, each allegedly in violation of the directors' fiduciary duties. Plaintiff seeks preliminary and permanent injunctive relief that would, among other things, (i) require the defendants to cooperate with any person having a bona fide interest in proposing a transaction and take certain other actions that allegedly would "maximize shareholder value," (ii) enjoin the Shareholders Protection Rights Plan in its entirety, (iii) enjoin the consummation of the Rose Hills transaction, (iv) enjoin the supermajority voting requirements, (v) require an accounting for unspecified damages, and (vi) compensate the plaintiffs for their fees and costs. On October 17, 1996, the Court denied the plaintiff's motion for expedited discovery. On November 8, 1996, the Company and those individual defendants upon whom service had purportedly been made appeared specially and moved to quash service of the summons for lack of jurisdiction or, in the alternative, to dismiss or stay the action on grounds of forum non conveniens. On December 10, 1996, the Court granted the defendants' motion to quash the summons and denied the plaintiffs' request for discovery. The action was dismissed, and no appeal has been filed.

No provision with respect to this legal proceeding has been made in the Company's 1996 consolidated financial statements.

Rojas et al.

On February 22, 1995, Juan Riveras Rojas, Leyda Rivera Vega, the Conjugal Partnership constituted between them, and Carlos Rivera Bustamente instituted a legal action against the Company, LGII and a subsidiary in the United States District Court for the District of Puerto Rico. The complaint alleges that the defendants breached a contract and ancillary agreements with the plaintiffs relating to the purchase of funeral homes and cemeteries, and committed related torts. The plaintiffs seek compensatory damages of $12,500,000, and unspecified punitive damages (although the Company is advised by counsel that there is no entitlement to punitive damages under Puerto Rican law). The Company has filed a motion to dismiss the complaint on the grounds of failure to join an indispensable party. In addition, the Company claims it has suffered damages far in excess of the amount claimed by the plaintiffs as a result of breach of contract and related torts on the part of the plaintiffs. A subsidiary of the Company has filed a complaint seeking damages in excess of $19,000,000 from the plaintiffs in the General Court of Justice of the Commonwealth of Puerto Rico. The Company has determined that it is not possible at this time to predict the final outcome of these legal proceedings and that it is not possible to establish a reasonable estimate of possible damages, if any, or reasonably to estimate the range of possible damages that may be awarded to the plaintiffs. Accordingly, no provision with respect to this lawsuit has been made in the Company's 1996 consolidated financial statements.

Feldheim et al. v. SI-SIFH Corp. et al.

In January 1997, Elmer C. Feldheim and four other individuals filed a lawsuit on behalf of themselves and a class of similarly situated individuals and/or entities against SI-SIFH Corp., SI-SI Insurance Company, Inc., Loewen Louisiana Holdings, Inc., and LGII in the Parish of Jefferson, State of Louisiana. Plaintiffs seek a class action. SI-SIFH Corp. and SI-SI Insurance Company, Inc. were acquired by LGII in March 1996 when LGII acquired the assets of S.I. Acquisition Associates, L.P.

Plaintiffs hold or held funeral insurance policies issued by insurance companies owned, directly or indirectly, by the defendants. Plaintiffs allege that (i) the defendants failed to provide the funeral services purchased with the policies by, among other things, offering a casket of inferior quality upon presentation of a policy, and (ii) in connection with the sale of the insurance policy, the insurance companies negligently or fraudulently represented and interpreted the scope and terms of the policies and omitted to provide material information regarding the policy benefits and limitations. Plaintiffs also allege unfair trade practices in violation of Louisiana's insurance code and trade practices laws.

Plaintiffs seek damages, penalties and attorneys fees. Louisiana law prohibits plaintiffs from alleging specific amounts of damages. Plaintiffs also seek a declaratory judgment compelling defendants to honor the policies and allowing a plaintiff to select a more expensive casket than provided for in the policy, upon payment of the difference in retail value, without forfeiting the other benefits provided for in the policy.

As of the date hereof, no discovery has taken place. The Company has determined that it is not possible at this time to predict the final outcome of this legal proceeding, including whether a class will be certified, and that it is not possible to establish a reasonable estimate of possible damages, if any, or reasonably to estimate the range of possible damages that may be awarded to plaintiffs. Accordingly, no provision with respect to this lawsuit has been made in the Company's 1996 consolidated financial statements.

Other

The Company is a party to other legal proceedings in the ordinary course of its business but does not expect the outcome of any other proceedings, individually or in the aggregate, to have a material adverse effect on the Company's financial position, results of operation or liquidity.

NOTE 12.
Commitments and Contingencies

(a) Leases

At December 31, 1996, the Company was committed to operating lease payments for premises, aircraft, helicopter, automobiles and office equipment in the following approximate amounts:

	Total
1997	$ 11,133
1998	9,248
1999	8,442
2000	7,643
2001	6,408
Thereafter	38,198

Total rent expense for each of the years in the three year period ended December 31, 1996 was $12,626,000, $10,590,000 and $10,098,000 respectively.

(b) Covenants not to compete

In connection with various acquisitions, the Company has entered into non-competition agreements ("covenants not to compete") with certain key management personnel of operations acquired. The Company's payments under the agreements may be made variously at closing or over future periods and are expensed over the terms of the specific contracts. At December 31, 1996, the agreements in place will result in future payments in the following approximate amounts:

1997	$ 15,723
1998	14,733
1999	13,507
2000	14,065
2001	11,162
Thereafter	40,915

(c) Environmental contingencies and liabilities

The Company believes environmental contingencies and liabilities to be immaterial individually and in the aggregate.

NOTE 13.
RETIREMENT PLANS

The Company has a defined contribution retirement plan covering substantially all United States employees. There are no required future contributions under this plan in respect of past service. The Company has a 401K Profit Sharing Plan for United States employees who may defer between 2% and 15% of their compensation. The Company contributes a minimum of 2% of employees' eligible compensation to the 401K Plan.

The Company has a Registered Retirement Savings Plan for Canadian employees who may contribute 3% of their compensation which is matched by an equal contribution to the plan by the Company on behalf of employees. There are no required future contributions under these plans in respect of past service.

The total expense for retirement plans for the three years ended December 31, 1996 was $2,318,000, $1,934,000 and $1,250,000 respectively.

NOTE 14.
HOSTILE TAKEOVER PROPOSAL

On January 7, 1997, SCI publicly withdrew its unsolicited proposed offer to acquire the Company through an exchange offer announced in October 1996. Pursuant to the proposed exchange offer, SCI would exchange $45 worth of Common stock for each Common share of the Company tendered and $29.51 worth of Common stock for each Series C Preferred share of the Company tendered. In September 1996, the Board of Directors of the Company unanimously determined that the offer was inadequate and not in the best interests of the Company or its shareholders and recommended that, if the offer were commenced, the Company's shareholders should not tender their shares.

Effective as of October 10, 1996, in order to attract and retain key executives and managers of the Company in the context of a threatened change in control of the Company, the Board of Directors of the Company, upon the recommendation of the Compensation Committee thereof, approved the execution of individual change-in-control severance agreements ("Severance Agreements") with approximately 80 of the Company's executives and managers ("Executives"). With the exception of Mr. Loewen, certain executive officers of the Company entered into such a Severance Agreement. Under each Severance Agreement, if there is a "change in control" (as defined), an Executive becomes entitled to severance pay amounting to one to three years' compensation, and certain other benefits during the "Severance Period" (as defined), if the Executive's employment terminates for any reason other than "cause" (as defined) or if the Executive terminates his or her employment for certain specified reasons. Each Severance Agreement also provides that the Executive is entitled to a retention bonus if the Executive remains employed by the Company for 30 days after a change in control. Benefits under the Severance Agreements can be reduced in certain circumstances.

In addition, the Board of Directors of the Company adopted a change-in-control severance compensation plan ("Severance Plan") that is designed to provide certain benefits to full-time salaried employees of the Company whose principal duties include corporate or regional management responsibilities. Under the Severance Plan, upon a "change in control" (as defined), each of the participants is entitled to a severance payment if, within 24 months after a change in control, the participant is terminated other than by reason of death, voluntary termination or retirement, or for "Just Cause" (as defined). Benefits payable under the Severance Plan can be reduced in certain circumstances.

Effective as of October 10, 1996, the Board of Directors of the Company authorized the Company to enter into indemnification agreements with certain of its directors and officers whereby the Company will agree to indemnify such person against all costs, charges and expenses incurred by reason of being a director or officer of the Company.

In late September, 1996, the Company on considering the possible effects of the hostile takeover proposal on its acquisition program, determined that access to capital markets might have been restricted or unavailable if the hostile takeover proposal remained outstanding for a long period of time. The Company concluded that an immediate debt issue was available and was the best alternative to provide continued liquidity during the likely period of the hostile takeover proposal. In October 1996, LGII consummated a private issue of two series of senior notes guaranteed by the Company for gross proceeds of $350,000,000. As the Company had not planned a long-term debt issue in late

1996, it believes that the incremental interest cost of the long-term debt issue over its bank revolving credit agreement is a direct result of the hostile takeover proposal. Included in finance costs related to the hostile takeover proposal is the incremental cost of $1,313,000 before income tax benefit for the period to December 31, 1996, which amount was determined as if the $350,000,000 debt issue was funded by the Company's bank revolving credit agreement.

In addition, the Company determined that it should obtain certain amendments from its bank lenders to provide flexibility during the hostile takeover proposal. The Company believes these amendment fees would not have been required if not for the hostile takeover proposal and has expensed the aggregate amendment fees of $1,917,000 before income tax benefit. These fees also are included in finance costs related to the hostile takeover proposal.

The other costs related to the hostile takeover proposal by SCI are comprised primarily of legal and financial advisory fees. In aggregate, the $15,448,000 incurred composed of $9,890,000 in legal fees, $2,000,000 in investment banking advisory fees, with the balance made up of fees to other advisors. No income tax benefit relating to these other costs has been reflected in the consolidated financial statements.

The Company has indemnified certain of its advisors against certain liabilities, including liabilities under United States and Canadian securities laws, arising out of their engagements.

NOTE 15.
Income Taxes

The Company's effective income tax rate is derived as follows:

	1996	1995	1994
	%	%	%
Combined Canadian federal and provincial income tax rate	45.5	(45.5)	45.5
Non-deductible costs of hostile takeover proposal	7.6	—	—
Tax benefits of legal settlements at lower rates	—	11.9	—
Foreign income taxed at lower rates	(30.1)	(8.9)	(18.5)
Non-deductible depreciation and amortization arising from acquisitions	9.5	3.7	5.6
Other	(1.2)	0.7	1.3
	31.3	(38.1)	33.9

The Company paid income taxes for each of the years in the three year period ended December 31, 1996 amounting to $21,180,000, $19,131,000 and $16,485,000 respectively.

NOTE 16.
Changes in Other Non-cash Balances

	1996	1995	1994
(Increase) decrease in assets			
Receivables, net of allowances	$ (32,050)	$ (15,608)	$ (17,448)
Inventories	(2,689)	(2,334)	(793)
Prepaid expenses	(2,670)	(2,848)	1,527
Amounts receivable from cemetery merchandise trusts	(6,672)	(11,206)	(2,756)
Installment contracts, net of allowances	(64,652)	(24,582)	(12,781)
Development of cemetery property	(11,406)	(9,710)	—
Deferred charges	(28,684)	(11,786)	(11,532)
Increase (decrease) in liabilities			
Accrued settlements	(53,000)	53,000	—
Accounts payable and accrued liabilities	27,600	9,746	4,979
Cemetery long-term liabilities	441	8,451	9,446
Insurance policy liabilities	2,332	5,221	—
Other changes in non-cash balances	—	104	18
	$ (171,450)	$ (1,552)	$ (29,340)

NOTE 17.
Supplementary Financial Information

A summary of certain balance sheet accounts as at December 31, is as follows:

	1996	1995
Receivables, net of allowances		
Trade accounts	$ 110,022	$ 83,404
Installment contracts	80,607	38,381
Other	37,127	20,050
Unearned finance income	(12,422)	(6,216)
Allowances for contract cancellations and doubtful accounts	(27,717)	(19,666)
	$ 187,617	$ 115,953
Long-term receivables, net of allowances		
Notes receivable	$ 12,093	$ 17,492
Amounts receivable from cemetery merchandise trusts	131,748	67,623
Installment contracts	189,233	111,551
Unearned finance income	(24,647)	(18,438)
Allowances for contract cancellations and doubtful accounts	(19,848)	(10,861)
	$ 288,579	$ 167,367
Cemetery property, at cost		
Developed land and lawn crypts	$ 109,708	$ 82,008
Undeveloped land	469,421	263,850
Mausoleums	36,063	23,164
	$ 615,192	$ 369,022

	1996	1995
Property and equipment		
Land	$ 140,903	$ 121,770
Buildings and improvements	431,820	347,848
Automobiles	66,186	53,967
Furniture, fixtures and equipment	110,901	80,585
Computer hardware and software	32,954	19,469
Leasehold improvements	11,614	7,689
Accumulated depreciation and amortization	(108,093)	(79,363)
	$ 686,285	$ 551,965
Names and reputations		
Names and reputations	$ 552,803	$ 405,803
Covenants not to compete	65,418	61,351
Accumulated amortization	(59,511)	(42,210)
	$ 558,710	$ 424,944
Other assets		
Deferred finance charges	$ 33,248	$ 8,439
Deferred direct obtaining costs	49,319	24,599
Acquisitions in progress	35,783	25,820
Other	15,793	8,091
	$ 134,143	$ 66,949

Accounts payable and accrued liabilities		
Trade payables	$ 23,784	$ 45,492
Interest	26,009	7,111
Dividends	4,675	—
Insurance, property and business taxes	5,897	4,072
Other	53,707	23,383
	$ 114,072	$ 80,058
Other liabilities		
Cemetery long-term liabilities	$ 141,573	$ 78,609
Liabilities of joint venture (Note 4)	36,897	34,114
Regional partnership liabilities	13,276	11,390
Participants' deposits in MEIP (Note 9(e))	5,636	6,080
Other	7,164	6,240
	$ 204,546	$ 136,433

NOTE 18.
SEGMENTED INFORMATION

The following information corresponds to the Company's major industry segments, all of which operate in North America.

	Funeral	Cemetery	Insurance	Corporate	Consolidated
Revenue					
1996	$ 549,833	$ 286,652	$ 71,900	$ —	$ 908,385
1995	441,352	143,577	13,564	—	598,493
1994	353,904	63,424	—	—	417,328
Depreciation and amortization					
1996	$ 46,681	$ 4,237	$ 42	$ 5,803	$ 56,763
1995	34,101	2,210	313	3,479	40,103
1994	24,904	1,759	—	2,327	28,990
Earnings from operations					
1996	$ 182,581	$ 84,530	$ 19,411	$ (82,417)	$ 204,105
1995	148,379	37,641	2,718	(71,131)	117,607
1994	118,529	13,662	—	(37,078)	95,113
Total assets					
1996	$ 1,784,717	$ 1,117,216	$ 329,134	$ 265,872	$ 3,496,939
1995	1,379,951	598,766	107,076	177,187	2,262,980
1994	994,030	232,305	—	99,940	1,326,275
Capital expenditures					
1996	$ 136,220	$ 36,782	$ 1,274	$ 9,966	$ 184,242
1995	103,955	19,341	—	7,509	130,805
1994	84,742	14,063	—	5,254	104,059

NOTE 19.
Related Party Transactions

During the year ended December 31, 1996, as part of the normal course of operations, the Company chartered a jet aircraft, a motor vessel and a helicopter at competitive rates from companies which the Chairman of the Company owns or controls. For each of the years in the three year period ended December 31, 1996, the total costs of the charters amounted to $605,110, $1,622,448 and $1,269,000 respectively, of which ($52,900), $108,924 and $132,000 respectively, remained outstanding at the year end.

In connection with the intended transfer of each of these assets to companies owned by third parties, the Company provided interim financing to companies owned by the Chairman of the Company totalling $1,750,000. The interim financing was repaid in full by October 1996.

The intended transfer of the motor vessel to a third party was not consummated. On October 28, 1996, the Company purchased all of the shares of the company that owned the vessel, 476822 B.C. Ltd. ("BC Ltd."), for an effective purchase price of Cdn. $7,860,000. In the transaction, the motor vessel was valued at Cdn. $7,200,000 and the other assets were valued at cost and aggregated approximately Cdn.$660,000. A third party appraisal of the motor vessel had established its fair market value at Cdn. $7,350,000 and its replacement value at Cdn.$12,500,000.

The Chairman has an option to reacquire either the motor vessel and related assets (the "Boat Assets") or the shares of BC Ltd. until October 1, 2006, under certain circumstances including a change in control of the Company. The option price for the Boat Assets is their fair market value, and the option price for the shares is the fair market value of the net assets of BC Ltd.

During the year, the company which owned the jet aircraft and helicopter sold them to a third party. The Company has leased the jet aircraft and helicopter from the third party at commercially reasonable terms.

The Board of Directors of the Company approved the transactions pertaining to the jet aircraft in July 1996 and the transactions pertaining to the motor vessel and helicopter in September 1996.

As part of the 1995 acquisition of Osiris Holding Corporation ("Osiris"), the Company has recorded as a long-term liability, $27,840,000. The balance outstanding is the present value of total remaining contingent payments of approximately $33,800,000 which the Company expects to pay over a five year period to the former shareholders of Osiris, two of whom are officers of the Company.

In addition, as part of the 1995 acquisition of Shipper Management ("Shipper"), the Company has recorded as a long-term liability, $6,841,000 representing the present value of total remaining contingent payments of approximately $8,500,000 which the Company recorded in the third quarter of 1996 when the outcome of the contingency became determinable and which the Company expects to pay over a six year period to the former shareholders of Shipper, one of whom is an officer of the Company.

NOTE 20.
Subsequent Events

During the period from January 1, 1997 to March 3, 1997, the Company acquired 19 funeral homes and 11 cemeteries. The aggregate cost of these transactions was approximately $35,467,000.

In March 1997, the Company has committed to acquire certain funeral homes, cemeteries and related operations, subject in most instances to certain conditions including approval by the Company's Board of Directors. The aggregate cost of these transactions, if completed, will be approximately $284,254,000.

NOTE 21.
United States Accounting Principles

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. These principles differ in the following material respects from those in the United States as summarized below:

(a) Earnings (loss) and earnings (loss) per Common share

	1996	1995	1994
Earnings (loss)			
Net earnings (loss) in accordance with Canadian GAAP	$ 63,906	$ (76,684)	$ 38,494
Less effects of differences in accounting for:			
Insurance operations (d)	(1,440)	—	—
Stock options	—	(191)	(220)
Income taxes (f)	2,093	1,075	1,378
Earnings (loss) before cumulative effect of changes in accounting principles	64,559	(75,800)	39,652
Cumulative effect of change in accounting for cemetery revenue recognition (g)	—	—	157
Net earnings (loss) in accordance with United States GAAP	$ 64,559	$ (75,800)	$ 39,809
Earnings (loss) per Common share			
Earnings (loss) per share in accordance with United States GAAP, are as follows:			
Primary earnings (loss) per share	$ 0.97	$ (1.67)	$ 0.98
Fully diluted earnings (loss) per share	$ 0.96	$ (1.67)	$ 0.98

The following average number of shares were used for the computation of primary and fully diluted earnings (loss) per share:

Thousands of shares	1996	1995	1994
Primary	57,418	45,291	40,549
Fully diluted	58,159	45,291	40,704

(b) Balance Sheet

The amounts in the consolidated balance sheet that differ from those reported under Canadian GAAP are as follows:

	December 31, 1996		December 31, 1995	
	Canadian GAAP	United States GAAP	Canadian GAAP	United States GAAP
Assets				
Investments	$ 266,228	$ 230,911	$ 86,815	$ 52,701
Insurance invested assets	296,249	297,340	97,024	97,024
Cemetery property	615,192	872,782	369,022	533,775
Present value of insurance policies acquired	—	14,933	—	—
Deferred policy acquisition costs	—	5,047	—	—
Names and reputations	558,710	586,847	424,944	439,181
Liabilities and Shareholders' equity				
Accrued settlements	—	—	40,000	—
Provision for legal settlements – non-current	—	—	—	112,000
Insurance policy liabilities	212,480	234,909	84,898	84,898
Deferred income taxes	(67,904)	239,617	(61,959)	140,707
Common shares	796,431	822,378	490,055	516,002
Common shares issuable under legal settlements	—	—	72,000	—
Retained earnings	80,117	61,824	36,439	17,493
Foreign exchange adjustment	14,506	(16,171)	16,188	(14,489)

(c) Statement of cash flows

Under United States GAAP, cash provided by financing and applied to investing would decrease by approximately $63,000,000 (1995 – $106,000,000, 1994 – $19,000,000) for non-cash debt and common share consideration on acquisitions. Similarly, cash provided by financing and applied to investing would decrease by approximately $2,600,000 (1995 – nil, 1994 – nil) for non-cash proceeds on disposal of certain subsidiaries, see Note 4(c).

Cash applied to operations and cash provided by financing activities would decrease by $112,000,000 because shares and debt issued for legal settlements would be considered non-cash transactions.

(d) Insurance operations

Present value of insurance policies

Under United States GAAP, the Company recognizes an asset that represents the actuarially-determined present value of the projected future profits of the insurance in-force at dates of acquisition. Canadian GAAP does not recognize such an asset. The asset is being amortized to insurance expense over the estimated life of the insurance in-force at the date of acquisition. In 1995, United States GAAP differences were not significant.

Deferred policy acquisition costs

Under United States GAAP, the Company defers costs related to the production of new business, which consist principally of commissions, certain underwriting expenses, and the costs of issuing policies. Deferred acquisition costs are amortized over the expected premium-paying periods of the related policies. Canadian GAAP does not permit deferral of such costs. In 1995, United States GAAP differences were not significant.

Insurance policy liabilities

Insurance policy liabilities, which represent liabilities for future policy benefits, are accounted for under United States GAAP using the net level premium method which involves different actuarial assumptions and methodologies than the policy premium method used for Canadian GAAP. In addition, under Canadian GAAP, all actuarial assumptions are re-evaluated on a periodic basis, resulting in adjustments to insurance policy liabilities and insurance costs and expenses. Under United States GAAP, assumptions established at the time a policy is written are locked in and only revised if it is determined that future experience will worsen from that previously assumed.

NOTE 21. UNITED STATES ACCOUNTING PRINCIPLES (continued)

(e) Unrealized gains and losses

Under United States GAAP, fixed maturity securities which the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. Fixed maturity securities classified as held-to-maturity were approximately $83,719,000 at December 31, 1996 (1995 – $23,000,000). Debt and equity securities that are held with the objective of trading to generate profits on short-term differences in price are carried at fair value, with changes in fair value reflected in the results of operations. At December 31, 1996, securities classified as trading were approximately $5,600,000. All other fixed maturity and equity securities not classified as either held-to-maturity or trading are classified as available-for-sale and carried at fair value which was approximately $316,028,000 at December 31, 1996 (1995 – $74,000,000). Available-for-sale securities may be sold in response to changes in interest rates and liquidity needs. Unrealized holding gains and losses related to available-for-sale investments, after deducting amounts allocable to income taxes, are reflected as a separate component of stockholders' equity. There were no significant unrealized gains or losses on securities available-for-sale as of December 31, 1996. Unrealized holding gains and losses related to trading investments, after deducting amounts allocable to income taxes, are reflected in earnings.

(f) Income taxes

Under United States GAAP, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Temporary differences are tax-effected at current rates whereas under Canadian GAAP, temporary differences are tax-effected at historic rates. There was no deferred tax effect of changes in tax rates during 1996.

The Company's deferred tax liabilities under FAS 109 at December 31, are as follows:

	1996	1995
Deferred tax liabilities		
Cemetery property	$ 254,995	$ 164,436
Property and equipment	62,609	50,101
Deferred costs related to prearranged funeral services	5,068	9,932
Other tax liabilities	24,515	19,102
Total deferred tax liabilities	347,187	243,571
Deferred tax assets		
Legal settlements	16,049	61,037
Interest and intercompany management fees	55,119	20,584
Other tax assets, net of valuation allowance	36,402	21,243
Total deferred tax assets	107,570	102,864
Net deferred tax liabilities	$ 239,617	$ 140,707

The Company believes realization of its net deferred tax assets is more likely than not. The Company's ability to realize its deferred tax assets is based on several factors, including a presumption of future profitability in certain jurisdictions and is subject to some degree of uncertainty. At December 31, 1996, the Company had a valuation allowance of $3,499,000 (1995 – $2,228,000). During the year ended December 31, 1996, the Company increased its valuation allowance by $1,271,000 for operating loss carryforwards.

(g) Change in accounting policy

During the year ended December 31, 1994, the Company changed its revenue recognition policy with regard to pre-need sales of cemetery interment rights and other related products. Previously revenue was recognized in accordance with principles prescribed for sales of real estate.

(h) Change in reporting currency

Effective January 1, 1994, the Company adopted the United States dollar as its reporting currency as a result of the significance of business activities conducted in the United States and of shareholdings held by residents of the United States.

(i) Recent United States accounting standards

The Company adopted the disclosure provisions of Statement of Financial Accounting Standards No. 123 ("FAS 123"), Accounting for Stock-Based Compensation, for United States GAAP purposes, to account for grants under the Company's existing stock based compensation plans.

The Company continues to record compensation expense for United States GAAP purposes following the intrinsic value principles of APB 25 for Accounting for Stock Issued to Employees in accounting for the plans. Under APB25, no compensation expense has been recognized for its stock based compensation plans in 1996 (1995 – $191,000, 1994 – $220,000). Had compensation cost been determined based on fair value at the grant dates for awards under those plans consistent with the measurement provisions of FAS 123, net earnings under United States GAAP would have been $58,860,000 for the year ended December 31, 1996 (1995 – $(76,600,000)) and primary and fully diluted earnings per share would have been $0.87 and $0.86 respectively (1995 – ($1.69) and ($1.69), respectively) For these purposes, the fair value of each option is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions; dividend yield 0.5% (1995 – 0.5%), expected volatility 24% (1995 – 24%), Canadian risk-free interest rates 5.68% (1995 – 7.65%) United States risk-free interest rates 5.57% (1995 – 6.58%) and expected average option term of 3.4 years (1995 – 4.5 years). The weighted average fair value of the options granted is $6.78 (1995 – $9.42) per option.

NOTE 22.
COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period.

Selected Financial Information

Consolidated Balance Sheets[1] expressed in thousands of U.S. dollars

December 31	1996	1995
Assets		
Current assets		
Cash and term deposits	$ 18,059	$ 39,454
Receivables, net of allowances	187,617	115,953
Inventories	32,008	27,489
Prepaid expenses	11,545	8,185
	249,229	191,081
Prearranged funeral services	334,420	245,854
Long-term receivables, net of allowances	288,579	167,367
Investments	266,228	86,815
Insurance invested assets	296,249	97,024
Cemetery property, at cost	615,192	369,022
Property and equipment	686,285	551,965
Names and reputations	558,710	424,944
Deferred income taxes	67,904	61,959
Other assets	134,143	66,949
	$3,496,939	$2,262,980
Liabilities and Shareholders' Equity		
Current liabilities		
Current indebtedness	$ —	$ 38,546
Accrued settlements	—	53,000
Accounts payable and accrued liabilities	114,072	80,058
Income taxes payable	—	—
Long-term debt, current portion	79,580	69,671
	193,652	241,275
Long-term debt	1,428,641	864,838
Subordinated debentures	—	—
Other liabilities	204,546	136,433
Insurance policy liabilities	212,480	84,898
Deferred income taxes	—	—
Deferred prearranged funeral services revenue	334,420	245,854
Preferred securities of subsidiary	75,000	75,000
Shareholders' equity		
Common shares	796,431	490,055
Common shares issuable under legal settlements	—	72,000
Preferred shares	157,146	—
Retained earnings	80,117	36,439
Foreign exchange adjustment	14,506	16,188
	1,048,200	614,682
	$3,496,939	$2,262,980
Number of funeral homes	956	815
Number of cemeteries	313	179
Number of funeral services	142,000	114,000
Number of employees	16,000	10,000
Business acquisitions (in millions)	$ 619.6	$ 487.9

[1] *Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period.*

1994	1993	1992	1991	1990	1989	1988
$ 15,349	$ 18,167	$ 12,176	$ 16,035	$ 9,706	$ 17,940	$ 3,180
70,547	51,684	37,211	27,451	25,063	10,574	5,882
19,673	15,952	12,323	8,165	6,381	2,919	1,805
4,299	4,941	3,974	2,248	785	956	645
109,868	90,744	65,684	53,899	41,935	32,389	11,512
178,982	175,216	146,109	127,086	104,413	49,524	33,343
67,895	30,059	11,460	5,725	2,319	—	—
78,269	3,749	1,338	915	921	—	—
—	—	—	—	—	—	—
114,861	48,158	24,135	15,939	15,230	3,160	2,859
426,038	346,244	284,654	216,851	159,438	79,417	52,442
314,599	199,514	126,156	87,547	72,982	25,363	17,910
—	—	—	—	—	—	—
35,763	19,977	15,575	10,530	6,881	2,845	4,091
$1,326,275	$ 913,661	$ 675,111	$ 518,492	$ 404,119	$ 192,698	$ 122,157
$ 3,700	$ 4,435	$ 3,558	$ —	$ 5,404	$ —	$ —
—	—	—	—	—	—	—
48,436	37,952	22,715	13,601	14,013	6,504	4,188
—	—	446	730	—	589	1,582
45,529	6,572	7,553	6,073	6,088	4,431	2,990
97,665	48,959	34,272	20,404	25,505	11,524	8,760
471,125	335,405	239,162	187,780	141,072	61,280	44,613
—	—	—	—	8,956	8,571	8,240
83,678	22,327	16,439	9,415	5,956	375	458
—	—	—	—	—	—	—
8,686	5,864	2,812	1,413	385	1,364	1,485
178,982	175,216	146,109	127,086	104,413	49,524	33,343
75,000	—	—	—	—	—	—
282,560	227,968	172,133	139,151	98,031	42,418	11,828
—	—	—	—	—	—	—
—	—	—	—	—	7,566	7,566
115,492	79,867	53,382	34,651	20,720	11,275	6,414
13,087	18,055	10,802	(1,408)	(919)	(1,199)	(550)
411,139	325,890	236,317	172,394	117,832	60,060	25,258
$1,326,275	$ 913,661	$ 675,111	$ 518,492	$ 404,119	$ 192,698	$ 122,157
640	533	451	365	268	131	98
116	70	38	23	21	7	5
94,000	79,000	64,000	52,000	34,000	22,000	18,000
7,000	5,000	4,000	3,000	2,000	1,000	1,000
$ 265.6	$ 148.0	$ 83.2	$ 68.5	$ 140.2	$ 31.5	$ 30.8

Selected Financial Information

Consolidated Statements of Operations[1] expressed in thousands of U.S. dollars except per share amounts

Fiscal years ended December 31	1996	1995
Revenue		
Funeral	$ 549,833	$ 441,352
Cemetery	286,652	143,577
Insurance	71,900	13,564
	908,385	598,493
Costs and expenses		
Funeral	326,892	258,872
Cemetery	191,473	103,726
Insurance	52,449	10,533
	570,814	373,131
	337,571	225,362
Expenses		
General and administrative	76,703	67,652
Depreciation and amortization	56,763	40,103
	133,466	107,755
Earnings from operations	204,105	117,607
Interest on long-term debt	88,932	50,913
Finance costs related to hostile takeover proposal	3,230	—
Other costs related to hostile takeover proposal	15,448	—
Litigation related finance costs	—	19,914
Legal settlements	—	165,000
Earnings (loss) before undernoted items	96,495	(118,220)
Dividends on preferred securities of subsidiary	7,088	7,088
Earnings (loss) before income taxes and undernoted items	89,407	(125,308)
Income taxes		
Current	22,544	29,379
Deferred	6,551	(76,557)
	29,095	(47,178)
	60,312	(78,130)
Equity and other earnings of associated companies	3,594	1,446
Net earnings (loss) for the year	$ 63,906	$ (76,684)
Basic earnings (loss) per Common share[2]	$ 0.97	$ (1.69)
Fully diluted earnings (loss) per Common share[2]	$ 0.97	$ (1.69)
Dividend per Common share[2]	$ 0.200	$ 0.050
Dividend per Preferred share	$ 1.008	$ —
Number of Common shares at year-end (in thousands)	59,057	48,168
Fully diluted weighted average number of Common shares (in thousands)	57,385	45,291
Common share price at year-end ($Cdn.)	$ 53.50	$ 34.38
Common share price at year-end ($U.S.)	$ 39.13	$ 25.31

[1] *Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period.*

[2] *After two-for-one stock split on June 12, 1991.*

1994	1993	1992	1991	1990	1989	1988
$ 353,904	$ 275,106	$ 202,748	$ 150,943	$ 92,391	$ 52,856	$ 35,566
63,424	27,905	16,159	11,662	8,565	4,427	1,987
—	—	—	—	—	—	—
417,328	303,011	218,907	162,605	100,956	57,283	37,553
210,471	166,782	123,044	90,861	55,237	29,759	20,557
48,003	21,111	12,155	8,657	5,152	3,152	1,240
—	—	—	—	—	—	—
258,474	187,893	135,199	99,518	60,389	32,911	21,797
158,854	115,118	83,708	63,087	40,567	24,372	15,756
34,751	28,225	17,086	12,981	7,495	4,278	2,101
28,990	21,196	16,059	11,053	5,876	3,254	2,166
63,741	49,421	33,145	24,034	13,371	7,532	4,267
95,113	65,697	50,563	39,053	27,196	16,840	11,489
34,203	21,801	19,083	14,913	10,914	7,177	4,916
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
60,910	43,896	31,480	24,140	16,282	9,663	6,573
2,678	—	—	—	—	—	—
58,232	43,896	31,480	24,140	16,282	9,663	6,573
17,053	12,501	10,571	8,421	5,776	3,798	2,899
2,685	3,213	1,143	1,294	773	417	253
19,738	15,714	11,714	9,715	6,549	4,215	3,152
38,494	28,182	19,766	14,425	9,733	5,448	3,421
—	—	—	—	—	—	—
$ 38,494	$ 28,182	$ 19,766	$ 14,425	$ 9,733	$ 5,448	$ 3,421
$ 0.97	$ 0.77	$ 0.59	$ 0.46	$ 0.39	$ 0.31	$ 0.23
$ 0.97	$ 0.76	$ 0.58	$ 0.46	$ 0.38	$ 0.28	$ 0.22
$ 0.070	$ 0.045	$ 0.032	$ 0.017	$ —	$ —	$ —
$ —	$ —	$ —	$ —	$ 0.288	$ 0.586	$ 0.327
41,015	38,647	35,534	32,754	28,391	19,977	12,849
41,720	38,085	34,644	31,821	25,971	19,865	16,308
$ 36.75	$ 33.25	$ 19.63	$ 15.63	$ 12.50	$ 9.31	$ 5.31
$ 26.50	$ 25.38	$ 15.50	$ 13.38	$ 10.63	$ n/a	$ n/a

Selected Financial Information

Consolidated Statements of Operations[1] expressed in thousands of U.S. dollars except per share amounts

	Fiscal quarters ended (Unaudited)				Year ended
1996	March 31	June 30	Sept 30	Dec 31	Dec 31
Revenue					
Funeral	$ 133,259	$ 133,713	$ 130,788	$ 152,073	$ 549,833
Cemetery	53,324	67,882	77,706	87,740	286,652
Insurance	6,501	21,561	22,959	20,879	71,900
	193,084	223,156	231,453	260,692	908,385
Costs and expenses					
Funeral	77,224	80,203	80,427	89,038	326,892
Cemetery	36,942	45,799	51,033	57,699	191,473
Insurance	5,375	16,600	16,708	13,766	52,449
	119,541	142,602	148,168	160,503	570,814
	73,543	80,554	83,285	100,189	337,571
Expenses					
General and administrative	17,063	17,818	19,051	22,771	76,703
Depreciation and amortization	11,642	13,060	14,303	17,758	56,763
	28,705	30,878	33,354	40,529	133,466
Earnings from operations	44,838	49,676	49,931	59,660	204,105
Interest on long-term debt	18,488	21,058	22,925	26,461	88,932
Finance costs related to hostile takeover proposal	—	—	—	3,230	3,230
Other costs related to hostile takeover proposal	—	—	2,615	12,833	15,448
Earnings before undernoted items	26,350	28,618	24,391	17,136	96,495
Dividends on preferred securities of subsidiary	1,772	1,772	1,772	1,772	7,088
Earnings before income taxes and undernoted items	24,578	26,846	22,619	15,364	89,407
Income taxes					
Current	2,168	1,553	2,560	16,263	22,544
Deferred	5,570	6,443	3,938	(9,400)	6,551
	7,738	7,996	6,498	6,863	29,095
	16,840	18,850	16,121	8,501	60,312
Equity and other earnings of associated companies	383	639	793	1,779	3,594
Net earnings	$ 17,223	$ 19,489	$ 16,914	$ 10,280	$ 63,906
Basic earnings per Common share	$ 0.30	$ 0.30	$ 0.25	$ 0.13	$ 0.97
Fully diluted earnings per Common share	$ 0.30	$ 0.30	$ 0.25	$ 0.13	$ 0.97

[1] *Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period.*

Selected Financial Information

Consolidated Statements of Operations[1] expressed in thousands of U.S. dollars except per share amounts

1995	Fiscal quarters ended (Unaudited) March 31	June 30	Sept 30	Dec 31	Year ended Dec 31
Revenue					
Funeral	$ 106,603	$ 104,369	$ 106,263	$ 124,117	$ 441,352
Cemetery	23,167	33,479	38,887	48,044	143,577
Insurance	—	—	8,352	5,212	13,564
	129,770	137,848	153,502	177,373	598,493
Costs and expenses					
Funeral	59,777	61,454	63,809	73,832	258,872
Cemetery	16,660	23,989	27,834	35,243	103,726
Insurance	—	—	6,555	3,978	10,533
	76,437	85,443	98,198	113,053	373,131
	53,333	52,405	55,304	64,320	225,362
Expenses					
General and administrative	10,506	12,131	15,793	29,222	67,652
Depreciation and amortization	8,396	9,090	11,212	11,405	40,103
	18,902	21,221	27,005	40,627	107,755
Earnings from operations	34,431	31,184	28,299	23,693	117,607
Interest on long-term debt	11,361	12,581	11,810	15,161	50,913
Litigation related finance costs	—	—	—	19,914	19,914
Legal settlements	—	—	—	165,000	165,000
Earnings (loss) before undernoted items	23,070	18,603	16,489	(176,382)	(118,220)
Dividends on preferred securities of subsidiary	1,772	1,772	1,772	1,772	7,088
Earnings (loss) before income taxes and undernoted items	21,298	16,831	14,717	(178,154)	(125,308)
Income taxes					
Current	7,190	3,351	3,326	15,512	29,379
Deferred	340	1,541	1,408	(79,846)	(76,557)
	7,530	4,892	4,734	(64,334)	(47,178)
	13,768	11,939	9,983	(113,820)	(78,130)
Equity and other earnings of associated companies	289	401	126	630	1,446
Net earnings (loss)	$ 14,057	$ 12,340	$ 10,109	$ (113,190)	$ (76,684)
Basic earnings (loss) per Common share	$ 0.34	$ 0.28	$ 0.21	$ (2.35)	$ (1.69)
Fully diluted earnings (loss) per Common share	$ 0.34	$ 0.28	$ 0.20	$ (2.35)	$ (1.69)

[1] *Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period.*

Corporate Directory

The Loewen Group Inc. *Directors*

Raymond L. Loewen
Chairman of the Board
and Chief Executive Officer
The Loewen Group Inc.

Rev. Kenneth S. Bagnell
Author and Clergyperson

The Honorable J. Carter Beese, Jr.
Chairman
Alex. Brown International

Dr. Earl A. Grollman
Author and Lecturer

Timothy R. Hogenkamp
President and Chief Operating Officer
The Loewen Group Inc.

Peter S. Hyndman
Vice-President, Law and Corporate Secretary
The Loewen Group Inc.

Albert S. Lineberry, Sr.
Chairman of the Board
Gaines Corporation

Charles B. Loewen
President
Corporate Services International Inc.

Robert B. Lundgren
Retired

James D. McLennan
President, McLennan Company

Lawrence Miller
Executive Vice-President, Operations
The Loewen Group Inc.

Ernest G. Penner
President, Penn-Co Construction Ltd.

The Right Honourable
John N. Turner, P.C., C.C, Q.C.
Partner, Miller Thomson
Barristers & Solicitors

Paul Wagler
Senior Vice-President, Finance
and Chief Financial Officer
The Loewen Group Inc.

Loewen Group International, Inc. *Directors*

Raymond L. Loewen
Chairman of the Board
and Chief Executive Officer
The Loewen Group Inc.

George M. Amato
President, Operations
North East Region

Dr. Gordon S. Bigelow
Executive Director, American Board of Funeral Service Education

J.C. (Buddy) Carothers, Jr.
Regional Partner and
President, Carothers
Holding Company, Inc.

H. Steven Childress
Regional Partner

Edward J. Fitzgerald
President, Fitzgerald & Son
Funeral Directors, Inc.

Honorine T. Flanagan
President, Palm Springs
Mausoleum, Inc.

Thomas F. Glodek
Regional Partner and
President, Kapala-Glodek
Funeral Service, Ltd.

Dr. Earl A. Grollman
Author and Lecturer

Timothy R. Hogenkamp
President and Chief Operating Officer
The Loewen Group Inc.

Mary M. Howard
President, Conejo Mountain
Memorial Park

Peter S. Hyndman
Vice-President, Law
and Corporate Secretary
The Loewen Group Inc.

Albert S. Lineberry, Jr.
Regional Partner and
President, Lineberry Group, Inc.

Michael L. Loudon
Regional Partner and President,
Whitehurst California

John E. Malletta, Sr.
Regional Partner and
President, Malletta-Vertin
Holdings Inc.

Hoyt (Pat) Mayes
President, Guardian/Mayes
Funeral Directors

Lawrence Miller
Executive Vice-President, Operations
The Loewen Group Inc.

J. David Mullins
Vice-President
Funeral Home Operations, North East Region

David F. Riemann
Regional Partner and President,
Riemann Holdings, Inc.

Robert D. Russell
Regional Partner and President,
Kraeer Holdings, Inc.

Bill Seale
President, Bell-Seale Funeral Home, Inc.

Michael L. Schweer
Vice-President
Funeral Home Operations, North Central Region
The Loewen Group Inc.

William R. Shane
Senior Vice-President and Chief Financial Officer,
Cemetery and Combination Division
The Loewen Group Inc.

David J. Shipper
Vice-President, Corporate Development

Sandra C. Strong
President, Strong-Thorne Mortuary Inc.

Robert L. Studley
Regional Partner and President,
New England Holding Company, Inc.

Paul Wagler
Senior Vice-President, Finance
and Chief Financial Officer
The Loewen Group Inc.

Robert A. Weinstein
Regional Partner and President,
Genesis Associates, Ltd.

John R. Wright, Sr.
President, Wright & Ferguson
Funeral Home

Corporate Management

RAYMOND L. LOEWEN*
Chairman of the Board and Chief Executive Officer

TIMOTHY R. HOGENKAMP*
President and Chief Operating Officer

DOUGLAS J. MCKINNON*
Executive Vice-President

LAWRENCE MILLER*
Executive Vice-President, Operations

PAUL WAGLER*
Senior Vice-President, Finance and Chief Financial Officer

W. GRANT BALLANTYNE*
Senior Vice-President Financial Control and Administration

GARY D. COWAN*
Senior Vice-President, Corporate Development

TIMOTHY A. BIRCH*
Vice-President, Corporate Development & Law

ALAN FISHER
Vice-President, Maintenance & Construction

JEAN PIERRE GABILLE
Vice-President, Corporate Development

DWIGHT K. HAWES*
Vice-President, Finance

PETER S. HYNDMAN*
Vice-President, Law and Corporate Secretary

BRENT KARILA
Vice-President, Operations Controller

DAVID A. LAUNDY*
Vice-President, Corporate Communications

KENNETH E. LEE, JR.
Vice-President, Combination Operations and Alternative Funerals

J.C. OGIER MATHEWES
Vice-President, Corporate Development

FRANK MILLES
Vice-President, Administration, Cemeteries

DANIEL N. NAKAGAWA*
Vice-President, Insurance Operations

RONALD P. ROBERTSON
Vice-President, Sales

ROGER RYAN*
Vice-President, Taxation, LGII

F. ANDREW SCOTT*
Vice-President, Finance and Investment Management

WILLIAM R. SHANE*
Senior Vice-President and Chief Financial Officer Cemetery and Combination Division

AARON SHIPPER
Vice-President, Marketing, Cemeteries

DAVID J. SHIPPER
Vice-President, Corporate Development

THOMAS E. STILGENBAUER*
Vice-President, Operations, Funeral Homes

GREGG A. STROM*
Vice-President, Cemeteries

** Executive Officers of The Loewen Group Inc.*

Operations / Regional Management

GEORGE M. AMATO*
Regional President, Operations North East Region

JEFFREY L. CASHNER*
Regional President, Operations South East Region

F. DUANE SCHAEFER*
Regional President, Operations South Central Region

MICHAEL STACHE*
Regional President, Operations North Central Region

DILLIS E. R. WARD*
Regional President, Operations, West Region

HARRY C. B. RATH*
Vice-President, Operations Eastern Canada Region

PETER A. WIESNER*
Vice-President, Operations Western Canada Region

** Executive Officers of The Loewen Group Inc.*

Corporate Information

THE LOEWEN GROUP INC.

4126 Norland Avenue
Burnaby, British Columbia
Canada V5G 3S8

Suite 800
50 East RiverCenter Blvd.
Covington, Kentucky
U.S.A. 41011

3190 Tremount Avenue
Trevose, Pennsylvania
U.S.A. 19053

AUDITORS

KPMG
Vancouver, British Columbia

GENERAL COUNSEL

Russell & DuMoulin
Vancouver, British Columbia

Thelen, Marrin, Johnson & Bridges LLP
San Francisco, California

Borden & Elliot
Toronto, Ontario

Jones, Day, Reavis & Pogue
Cleveland, Ohio

Investor Information

Publicly traded securities of The Loewen Group include Common shares and First Preferred Shares Series C and Monthly Income Preferred Securities (MIPS) of Loewen Group Capital, L.P.

Common Shares

The Common shares of The Loewen Group Inc. are listed for trading under the symbol LWN on The New York Stock Exchange, The Toronto Stock Exchange and The Montreal Exchange. Prior to October 2, 1996 the Common shares of The Loewen Group Inc. were quoted on The Nasdaq National Market under the symbol LWNG.

	TSE (Cdn $)				NYSE / Nasdaq National Market			
	1996		1995		1996		1995	
Calendar Quarter	High	Low	High	Low	High	Low	High	Low
Quarter 1	41.125	22.500	40.875	35.000	29.875	16.375	29.125	24.703
Quarter 2	42.350	36.000	50.750	36.750	31.125	26.125	36.500	26.625
Quarter 3	58.750	36.600	56.000	46.000	42.750	26.625	41.750	33.875
Quarter 4	58.000	51.450	55.750	31.250	42.625	37.625	41.625	23.125

As of March 14, 1997 there were 2,090 record holders of the Common shares.

Transfer agent and registrar: RM Trust, P.O. Box 1900, Vancouver, British Columbia V6C 3K9 1-800-387-0825

Monthly Income Preferred Securities

The MIPS of Loewen Group Capital, L.P. (an affiliate of The Loewen Group Inc.) have a par value of $25 and are listed for trading on the New York Stock Exchange under the symbol LWNPR.

	1996		1995	
Calendar Quarter	High	Low	High	Low
Quarter 1	25.375	15.625	25.500	25.000
Quarter 2	25.250	24.375	26.750	26.375
Quarter 3	26.500	24.625	26.750	26.375
Quarter 4	26.750	25.000	24.000	22.500

A monthly dividend of $0.1969 per security is payable on the last day of each month. Investors receive a Schedule K-1 representing the investor's proportionate share of the interest income of Loewen Group Capital, L.P.

Transfer agent: Chase Mellon Shareholder Services, Four Station Square, Third Floor, Pittsburgh, Pennsylvania 15219-1173

First Preferred Shares Series C

The First Preferred Shares Series C have a par value of Cdn. $25 and are listed for trading on The Toronto Stock Exchange and The Montreal Exchange under the symbol LWN.PR.C.

	TSE (Cdn $)	
	1996	
Calendar Quarter	High	Low
Quarter 1	31.875	21.000
Quarter 2	32.500	28.000
Quarter 3	40.500	29.000
Quarter 4	40.500	36.000

A quarterly dividend of Cdn. $0.375 per share is payable on the last day of each quarter.

Transfer agent and registrar: RM Trust, P.O. Box 1900, Vancouver, British Columbia V6C 3K9 1-800-387-0825

Additional Information

Corporate publications including annual reports, quarterly reports, information circulars/proxy statements, and Vision magazine are available by contacting:

The Loewen Group Inc.
Investor Relations Department
4126 Norland Avenue, Burnaby
British Columbia, Canada V5G 3S8
1-800-347-7010

The Annual General Meeting of Shareholders of The Loewen Group Inc. will be held:

Thursday, May 15, 1997
2:30 p.m.
Pan Pacific Hotel
999 Canada Place
Vancouver, British Columbia
Canada

Ray Loewen, Chairman and CEO, raises the gavel to close the day's trading while Richard A. Grasso, Chairman and CEO of the New York Stock Exchange, looks on. The event marked the first day of trading on the NYSE for Common shares of The Loewen Group.

onzalez • Funeraria Gonzalez Lago • Funeraria Panciera • Funeraria Porta Coeli • Fuqua-Bankston Funeral Home • Furman Funeral Home • Gable And Parkrose Funeral Chapels • Gaffey Funeral Home •
alloway & Sons Funeral Home • Galloway & Sons, Inc. • Garden Sanctuary Funeral Home • Garrett's Funeral Home • Garza-Elizondo Funeral Directors • Garza Memorial Funeral Home • Gaskill Funeral
hapel • Gaskins Funeral Home • Geeslin Funeral Home • George C. Price Funeral Home • George McCarthy Historic Chapel • Giffen-Mack-Scarborough Chapel • Giffen-Mack Chapel • Gilman Funeral Home
Gish Funeral Home • Gleason Mortuary • Glenhaven Memorial Chapel • Godbout Mortuary • Gooding Funeral Home • Goodman-Bensman Funeral Home • Gorder Funeral Home • Gordon E. Utt Funeral
ome • Gordon Mortuary • Grace Memorial Chapel • Graceland Funeral Home • Graham Funeral Home • Granite Chapel • Grants Mortuary • Green Acres Memorial Services • Green Funeral Home • Green
isitation Chapel • Greenwell Funeral Home • Greer Funeral Home • Gregg L. Mason Funeral Home • Grennan Funeral Home • Gresham Funeral Alternatives • Griffin Funeral Home • Guardian Midtown
uneral Home • Guardian Northside Funeral Home • Guardian West Funeral Home • Guardian/Mayes Funeral Home • Guerrero Mortuary, Inc. • Haakinson-Groulx Funeral Home • Haankinson-Groulx
uneral Mortuary • Hadley Farmersville Funeral Service • Hadley Funeral Chapels • Hafey East Longmeadow Chapels • Hafey Springfield Chapel • Halverson Chapel • Hamilton Harron Funeral Centre And
rematorium • Hanes-Lineberry Sedgefield Chapel • Hankins & Whittington Funeral Service • Harbert Funeral Chapel • Harding-Orr And McDaniel Funeral Home • Harkey Funeral Home • Harper-Talasek
uneral Home / Killeen • Harper-Talasek Funeral Home / Salado • Harper-Talasek Funeral Home / Temple Funeral Home • Harris Funeral Home • Harry W. Moore Appleget Northeast Chapel • Harry W. Moore
astleton Chapel • Harry W. Moore Peace Chapel • Harvey's Reese Park Chapel Funeral Home • Harvey Funeral Home, Inc. • Hastings-Dionne Funeral Home • Hatfield Funeral Home • Hawks Funeral Home •
ayward's Funeral Service - Ganges • Hayward's Thomson & Irving Funeral Chapels • Haywards Funeral Service • Heath-Griffith Funeral Service • Helm Funeral Home • Helmsing Funeral Chapel •
enderson's Cloverdale Chapel • Henderson's Fraser Valley Funeral Home • Henderson's Funeral Homes • Hennessey Funeral Home • Heritage Memorial Funeral Home • Hewett Funeral Home • Hibbard-
uggles Funeral Home • Higdon Funeral Home, Inc. • Hill Funeral Home • Hills Funeral Home • Hillside Funeral Home • Hillside Funeral Home East • Hillside Funeral Home Midtown • Hillside Funeral Home
est • Hodges-Joseberger Funeral Home • Hodges-Turner Funeral Home • Hodges Funeral Chapel • Hodges Funeral Chapel and Cremation Service • Hofmeister Funeral Chapel • Hogenkamp-Rousculp-
raub Funeral Home • Holder-Wells Funeral Home • Hollabaugh-Spindle Funeral Home • Hollyburn Funeral Home • Honaker Funeral Home • Hooks Chapel • Horis A. Ward, Inc. • Howard L. Carmichael &
ons • Howe Mortuary of Boulder, Inc. • Howell Funeral Home • Howell, Edwards, Doerksen Chapel Of The Gardens • Hubbard-Kelly Funeral Home • Hubbard Funeral Home • Hubert C. Baker Funeral Home
Hudson's Funeral Home • Hudson-Phillips Funeral Home • Huff-Cook Funeral Home • Huff-Slay Funeral Home And Pilot Point Monument Co. • Huff Funeral Home • Hughes Funeral Home • Hughes
unerals • Hughes Southland Funeral Home • Humphrey Mortuary • Hunsaker-Wooten Funeral Home • Hutchins-Maples Funeral Home • H. Samson, Inc. • H.H. Birkenkamp Funeral Home • H.P. Brandt
uneral Home • H.S. Anderson And Sons • Imperial Beach Mortuary • Imperial Funeral Home and Cemetery, Inc. • Ives Funeral Home • J M Posey & Sons Funeral Home • Jacob Schoen & Son Funeral Home •
ames Funeral Home • Jayne's Funeral Home (1984) Limited • JB Earthman Funeral Home • Jenkins Funeral Home • Jennings Funeral Home • Jensen-Carpenter Mortuary • Jens-Le Veck Funeral Chapel •
rns-McKinney Funeral Chapel • Jim Thomas Funeral Homes • Joe P. Burns Funeral Home • John C. Mulry Funeral Homes, Inc. • John J. Healey Funeral Home • Johnson's Funeral Home • Johnson-Lange
uneral Home • Johnson-Vaughn Funeral Home • Johnson Funeral Home • Jones-Ash Funeral Home • Jones Funeral Home • Jones & Jones Funeral Home • Jones & Son Funeral Home • J.A. Snow's Funeral
ome • J.B. Marlatt Funeral Home • Kamloops Funeral Home • Keaton's Mortuary • Keaton's Redwood Chapel of Marin • Keizer Chapel • Kemple-Dillman-Ellis Funeral Home • Kemple-Dillman-Hunter
uneral Home • Kennedy-Roth Funeral Home • Kennedy Chapel • Kern-Schneider-Kiesau Funeral Home • Kerr's Funeral Chapel • Key West Mortuary • Kiker-Seale Funeral Home • Kilgroe - Pell City Funeral
ome • Kilgroe Funeral Home • Kimball Funeral Home • Kinsella Funeral Home • Klassen Funeral Chapel • Knee Funeral Home of Wilkinsburg, Inc. • Kohls Community Funeral Home • Kolkmeyer-
elmkamp-Orians Funeral Home • Koontz Little Chapel • Kraeer Funeral Homes • Kreidler-Ashcraft Funeral Director • Kukui Mortuary • Lacy Funeral Home • Lakeland Funeral Home • Lakewood Funeral
ome • Lang's Funeral Chapel • Lang-Tobia-Di Palma Funeral Home • Lansing Chapel • Las Mercedes Memorial Park • Laurel Funeral Home • Lauterburg & Oehler Funeral Home • Lawton Ritter Gray Funeral
ome • Leasure-Stein Funeral Home • Lebanon Funeral Home • Lee Funeral Home • Lee Memorial Park Funeral Home • Leitz-Eagan Funeral Home • Lendman-Mischler Funeral Home • Lester L. Hayman
uneral Home • Levitt-Weinstein Boca-Deerfield Chapel • Levitt-Weinstein East Hollywood Chapel • Levitt-Weinstein North Miami Beach Chapel • Levitt-Weinstein Tamarac Chapel • Levitt-Weinstein West
alm Beach Chapel • Levitt Weinstein Beth David Memorial Gardens • Levitt Weinstein Mount Nebo Kendall Chapel • Lewis Funeral Home • Lindsey Funeral Home • Livingston-Malletta & Geraghty Funeral
ome • Lloyd James Funeral Home • Loewen Funeral Chapel • Loflin Funeral Home • Lomax Funeral Home • Long & Folk Funeral Home • Lowe's Funeral Home • Lowell-Tims Funeral Home • Lowell-Tims
uneral Home Chapel • Luff Bowen Funeral Home • Lynch Funeral Home • Macer-Hall Funeral Home • MacKenzie Funeral Home • Mackie-Gentry Funeral Home • Mackie-High Funeral Home • MacLean
uneral Home • Mahaffey Funeral Home • Main-Frame & Hostetler Funeral Home • Malone Funeral Home • Mann-Walden Funeral Home • Margate Funeral Home • Marks Funeral Home • Martin's Funeral
ome • Martin Memorial Gardens • Martin Oak Ridge Funeral Home • Mattatall Funeral Home • Max Martinez Funeral Home • Mayes Mortuary • McCarthy Almont Funeral Home • McCarty's Evergreen
hapel • McCarty's Woodhaven Chapel • McCarty Mortuary • McClure Funeral Home • McClure Funeral Service • McCracken Funeral Home • McCreary Funeral Home • McEwen Funeral Home Of Monroe •
cGee Memorial Chapel And Crematory • McHugh Funeral Home • McKague's Funeral Chapel • McKee-Miles Funeral Home • McKee Funeral Home • McLaughlin - Aultman Funeral Home • McLaughlin
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